BLACKHAWK RESOURCE CORP.

MANAGEMENT’S DISCUSSION AND ANALYSIS
FORM 51-102F1

FOR THE YEAR ENDED JUNE 30, 2011

October 27, 2011

Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2011. The audited consolidated financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are expressed in Canadian dollars.

Effective September 1, 2009, Blackhawk Resource Corp. (the "Corporation") changed its year end to June 30 from August 31. The year end change was necessary to make the Corporation's financial statements directly comparable to other junior oil and gas corporations on a quarterly basis. This change in year end requires the Corporation to have a transition year with a ten month period ending June 30, 2010.

1. OVERALL PERFORMANCE

Petroleum and natural gas properties

The Corporation's petroleum and natural gas assets are composed of interests in several properties in the province of Alberta. The Bodo property was considered the Corporation's core area.

On July 27, 2011, the Corporation announced that it had signed a purchase and sale agreement related to its Bodo properties. The properties have been sold in two concurrent arms length transactions for total gross proceeds of $6,800,000 with an effective date of July 1, 2011. Shareholder approval of the transaction was received on September 14, 2011. The closing of the transaction is still awaiting final regulatory approval.

The Bodo property is located in and around Township 38, Range 1 West of the Fourth Meridian. Production from the Bodo area is primarily heavy oil from the McLaren Formation, and medium gravity oil from the Sparky Formation. Blackhawk had approximately 8,195 net acres of land in the Bodo area. Currently there are four 100% owned producing oil wells and two producing gas wells (owned 100% and 6.25%).

Blackhawk also derives production from the following non-operated properties: Wood River, four producing natural gas wells with an average working interest of 37.5%; Queenstown, two producing oil and gas wells with a working interest of 30%; and Greencourt, one producing oil well with a working interest of 21%.

Other non-producing properties are held in the Edson Cardium, Peoria, Carrot Creek and Esther areas of Alberta.

The Corporation averaged production of 154 BOE/D during the year ended June 30, 2011 (2010 – 50 BOE/D), split 85% oil and 15% gas (2010- 55% oil and 45% gas). The Corporation's current production is 101 BOE/D.

Corporate

On September 1, 2009, the Corporation closed the acquisition of all of the issued and outstanding common shares of Black Bore Exploration Ltd. The aggregate consideration paid by Blackhawk for all of the Black Bore common shares was a total of 7,694,671 units of Blackhawk at a deemed price of $0.10 per unit. Each unit of Blackhawk was comprised of: (a) one Blackhawk common share; (b) one 75 BOE/D performance right; and (c) 0.6 of one 150 BOE/D performance right. Each whole performance right will entitle the holder to acquire one Blackhawk common share without additional consideration upon satisfaction of the relevant production threshold. This acquisition resulted in the issuance of performance rights to acquire a further 12,311,473 Blackhawk common shares.

On August 27, 2010, all of the 75 BOE/D performance rights were converted to common stock of the Corporation and 7,694,671 common shares were issued with a value of $0.14 per share.

On November 29, 2010, the Corporation announced the vesting of the remaining 150 BOE/D performance rights. The vesting of these rights resulted in the issuance of 4,616,802 common shares, valued at $0.115 per share.

On March 28, 2011, the Corporation entered into a letter of intent, which contemplated an arm's length business combination with Perfco International Energy Inc. ("Perfco"), a private Alberta company, engaged in oil and gas exploration in Vietnam. The letter of intent was terminated on May 27, 2011.

Financing

The Corporation has a $3.3 million reserves based revolving credit facility with ATB Financial. The credit facility will be used for general corporate purposes and to fund future development drilling on Blackhawk's properties.

On December 10, 2009, the Corporation issued 10,000,000 common shares on a flow-through basis at a price of $0.17 per Flow-Through Share. Gross proceeds of the private placement totaled $1,700,000 and incurred $98,122 in share issue costs. Prior to December 31, 2010, the Corporation had incurred eligible expense to meet its commitments in regard to the flow-through obligations.

Exploration and development

During the year ended June 30, 2011, Blackhawk participated in an Edson Cardium horizontal well with a 22% working interest BPO and14.67% APO. This wellspud in November, 2010 and completion operations commenced in December, 2010, with a 12 stage multifrac stimulation program. In February, 2011, operations to equip and test the well were completed.

2. SELECTED ANNUAL INFORMATION

	June 30, 2011 (audited)	June 30, 2010 (audited)	August 31, 2009 (audited)
Net sales	$3,046,608	$739,137	$135,247
Loss from continuing operations	(767,505)	(296,460)	(1,604,182)
Loss from discontinued operations	(3,445)	(392,544)	(342,496)
Net loss, being comprehensive loss	(770,950)	(689,004)	(1,946,678)
Total Assets	6,724,799	6,139,098	1,031,405
Working capital (deficit)	(2,600,828)	(421,451)	483,300
Basic and diluted net income (loss) per share			
From continuing operations	(0.01)	(0.01)	(0.06)
From discontinued operations	(0.00)	(0.01)	(0.01)
Net loss	(0.01)	(0.02)	(0.07)

3. SELECTED QUARTERLY INFORMATION

	Three month period ended			
	Jun 30, 2011	**Mar 31, 2011**	**Dec 31, 2010**	**Sept 30, 2010**
Net sales	$695,294	$698,840	$887,855	$764,619
Net income (loss)	(199,312)	(306,593)	(405,723)	140,678
Basic and diluted net income (loss) per share	(0.01)	(0.01)	(0.01)	0.00

	Three month period ended			
	Jun 30, 2010	**Mar 31, 2010**	**Dec 31, 2009***	**Aug 31, 2009**
Net sales/total revenues	$484,351	$86,407	$168,379	$41,977
Net income (loss)	487,088	(753,034)	(423,058)	(855,511)
Basic and diluted net income (loss) per share	0.01	(0.02)	(0.01)	(0.03)

*December 31, 2009 is for the four month period ended.

The above noted financial data should be read in conjunction with the audited year end June 30, 2011 and June 30, 2010 financial statements. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

4. RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2011

Oil and natural gas sales revenue and pricing

Revenue	***Year ended June 30, 2011***	***Ten months ended June 30, 2010***
Oil / NGLs	$3,285,966	$586,223
Natural Gas	191,895	177,995
Total Revenue	$3,477,861	$764,218
Royalties	(436,332)	31,521
Revenue, net of royalties	**$3,041,529**	**$732,697**

Product Prices-Sales	***June 30, 2011***	***June 30, 2010***
Oil / NGLs ($/bbl)	$68.84	$70.30
Natural Gas ($/mcf)	$3.83	$4.35

Product Volumes	*Year ended June 30, 2011*	*Average BOE/D for the year ended June 30, 2011*
Oil / NGLs	47,736 bbl	131 BOE/D
Natural Gas	50,121 mcf	23 BOE/D
Total	56,090 BOE	154 BOE/D

Product Volumes	*Ten months ended June 30, 2010*	*Average BOE/D for the ten months ended June 30, 2010*
Oil / NGLs	8,339 bbl	28 BOE/D
Natural Gas	40,919 mcf	23 BOE/D
Total	15,159BOE	50 BOE/D

			June 30, 2011
Netbacks	**Oil & NGL per bbl**	**Gas per mcf**	**Total per BOE**
Revenue	$68.84	$3.83	$62.01
Royalties	8.75	0.36	7.78
Operating Expenses	19.60	3.55	19.85
Operating Netback	$40.49	$(0.08)	$34.38

			June 30, 2010
Netbacks	**Oil & NGL per bbl**	**Gas per mcf**	**Total per BOE**
Revenue	$70.30	$4.35	$50.37
Royalties	2.81	0.19	2.08
Operating Expenses	19.33	1.92	15.81
Operating Netback	$48.16	$2.24	$32.48

The Corporation earned oil and gas revenue for the year ending June 30, 2011 of $3,477,861, up from $764, 218 in the prior year. The increase in revenue is due to the production from the Bodo #2 horizontal well and the McLaren oil wells coming on stream in the current year.

The Corporation paid a total of $436,332 ($7.78 per BOE) in royalties in the year ended June 30, 2011. The royalty rate increased significantly in the current year, as production from the Bodo #2 and McLaren wells were no longer eligible for the initial low rates past the first year of production.

Operating expenses for the year ended June 30, 2011 were $1,113,465 or $19.85 per BOE of production compared to $15.81 per BOE in the prior year. The increase is related to well workovers completed in the year on wells in the Bodo area. Operating costs are expected to decrease in the next quarter.

General and administrative

General and administrative expenses for the year ended June 30, 2011 were $726,123 compared with $467,703 for the ten month period in June 2010. The Corporation incurred increased expenses during the year in relation to the terminated business combination with Perfco. The general and administrative expense is mainly composed of consulting fees totaling $347,065, office rental fees of $94,210, and computer software and rentals of $79,057. The remaining expense is composed of other general office expenses.

Discontinued operations

During the year ended August 31, 2009, the Corporation changed its business strategy to focus on oil and gas exploration and development in Western Canada. As such, the Corporation sold its remaining construction related assets and began to actively market its Brazilian properties. The results of operations of the Corporation's construction operations and Brazilian oil and gas activities have been retroactively reclassified in the statement of operations as discontinued operations, net of income taxes. For the year ended June 30, 2011, the Corporation incurred a loss, net of income taxes from discontinued operations of $3,445 (2010 – $392,544).

Net loss

The net loss of $770,950 ($0.01 per share) for the year ended June 30, 2011, was mainly due to an increase in field operating costs resulting from the well workovers on the Bodo property and the increased expenses related to the terminated business combination with Perfco. Non-cash items incurred in the year affecting income are depletion, and accretion of $1,281,662 and stock based compensation of $11,468. This compares to the net loss of $689,004 ($0.02 per share) for the ten month period in June 2010.

Cash flow from continuing operations

Cash flow from continuing operations was a negative $131,562, compared with a positive cash flow of $491,801 in the ten month period ended June 30, 2010. The negative cash flow related to an increase in field operating costs for the year resulting from the well workovers on the Bodo property and the increased expenses related to the terminated business combination with Perfco.

5. RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD

Oil and natural gas sales revenue and pricing

Revenue	*Three months ended June 30, 2011*	*Three months ended June 30, 2010*
Oil / NGLs	$868,079	$442,240
Natural Gas	40,088	59,527
Total Revenue	$908,167	$501,767
Royalties	(217,621)	17,785
Revenue, net of royalties	**$690,546**	**$483,982**

Product Prices-Sales	*June 30, 2011*	*June 30, 2010*
Oil / NGLs ($/bbl)	$81.86	$75.32
Natural Gas ($/mcf)	$3.90	$5.36

Product Volumes	*Three months ended June 30, 2011*	*Average BOE/D for the three months ended June 30, 2011*
Oil / NGLs	10,605 bbl	117 BOE/d
Natural Gas	10,283 mcf	19 BOE/d
Total	12,319BOE	135 BOE/d

Product Volumes	*Three months ended June 30, 2010*	*Average BOE/D for the three months ended June 30, 2010*
Oil / NGLs	5,871 bbl	65 BOE/d
Natural Gas	11,102 mcf	20 BOE/d
Total	7,721 BOE	85 BOE/d

			June 30, 2011
Netbacks	**Oil & NGL per bbl**	**Gas per mcf**	**Total per BOE**
Revenue	$81.86	$3.90	$73.72
Royalties	20.29	0.23	17.67
Operating Expenses	16.26	3.83	17.20
Operating Netback	$45.31	$(0.16)	$38.85

			June 30, 2010
Netbacks	**Oil & NGL per bbl**	**Gas per mcf**	**Total per BOE**
Revenue	$75.32	$5.36	$64.95
Royalties	3.72	1.55	2.30
Operating Expenses	8.29	3.92	11.94
Operating Netback	$63.31	$(0.11)	$50.71

The Corporation earned oil and gas revenue for the three month period ending June 30, 2011 of $908,167 compared to $501,767 for the three month period ended June 30, 2010. The increase in revenue is due to the production from the Bodo #2 horizontal well and the McLaren oil wells coming on stream in the current year.

The Corporation paid a total of $217,621 ($17.67 per BOE) in royalties in the three month period ended June 30, 2011. The royalty rate increased significantly in the current year, as production from the Bodo #2 and McLaren wells were no longer eligible for the initial low rates past the first year of production.

Operating expenses for the three month period ended June 30, 2011 were $211,863 or $17.20 per BOE of production compared to $11.94 per BOE for the same period in the prior year. The increase is related to well workovers completed in the period. Operating costs are expected to decrease in the next quarter.

General and administrative

General and administrative expenses for the three month period ended June 30, 2011 were $111,935 compared with $144,677 for the three month period in June 2010. The expense is mainly composed of consulting fees totaling $52,750, office rental fees of $23,184, and computer software and rentals of $6,291. The remaining expense is composed of other general office expenses.

Discontinued operations

During the year ended August 31, 2009, the Corporation changed its business strategy to focus on oil and gas exploration and development in Western Canada. As such, the Corporation sold its remaining construction related assets and began to actively market its Brazilian properties. The results of operations of the Corporation's construction operations and Brazilian oil and gas activities have been retroactively reclassified in the statement of operations as discontinued operations, net of income taxes. For the three month period ended June 30, 2011, the Corporation incurred income, net of income taxes from discontinued operations of $188 (June 30, 2010 – net income of $106,099).

Net loss

The net loss of $199,312 ($0.01 per share) for the period was mainly due to an increase in royalties resulting from an increase in the applied rates on some of the Corporation's properties. Non-cash items incurred in the period affecting income are depletion, and accretion of $316,554. This compares to the net income of $487,088 ($0.01 per share) for the three month period in June 2010. The prior period's net income is a result of a future income tax recovery of $425,000 and other income including $113,683 related to a deposit released due to the termination of the purchase and sale agreement for the Brazil subsidiary.

Cash flow from continuing operations

Cash flow from continuing operations was a positive $350,278, compared with $368,791 in the three month period ended June 30, 2010. The positive cash flow is due to increased revenues from the Corporation's oil and gas operations in the period.

6. LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2011, the Corporation had working capital deficit of $2,600,828 which compares to working capital deficit of $421,451 at June 30, 2010. The decrease in working capital is the result of the Corporation's increased expenditures on its drilling projects, terminated business combination with Perfco and increased operating expenses in the year.

With the current working capital deficit of $2,600,828, the Corporation may require additional financing in order to continue exploration and development of its oil and gas properties. This additional financing may come in the form of equity and/or debt financing. The Corporation's day to day operations are funded by the cash flow generated from its producing oil and gas properties.

On July 27, 2011, the Corporation announced that it had signed a purchase and sale agreement related to its Bodo properties. The properties have been sold in two concurrent arms length transactions for total gross proceeds of $6,800,000 with an effective date of July 1, 2011. The proceeds from the sale of the assets will remove the current working capital deficit.

On August 6, 2010, The Corporation established a $3.3 million reserves based revolving credit facility with ATB Financial. The credit facility will be used for general corporate purposes and to fund future drilling on Blackhawk's properties.

7. TRANSACTIONS WITH RELATED PARTIES

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties, and are comparable in terms, rates and conditions in the oil and gas industry.

Year ended June 30, 2011

During the year ended June 30, 2011, companies controlled by officers and directors of the Corporation were paid $106,500 (June 30, 2010 - $242,500) in consulting fees in relation to the operations of the Corporation, which are included in general and administrative expenses in the statement of operations. At June 30, 2011, no amount was outstanding in accounts payable and accrued liabilities (June 30, 2010 – $Nil).

During the year ended June 30, 2011, companies controlled by former officers and directors of the Corporation were paid $117,220 (June 30, 2010 - $Nil) in consulting fees in relation to the operations of the Corporation, which are included in general and administrative expenses in the statement of operations. At June 30, 2011, no amount was outstanding in accounts payable and accrued liabilities (June 30, 2010 – $Nil).

During the year ended June 30, 2011, the Corporation incurred legal costs of $55,768 (June 30, 2010 - $25,743) with a law firm in which the Corporate secretary is a Partner. The legal costs incurred were in the normal course of operations and were based on the exchange value of the service provided. Of the legal services provided, $Nil were included in accounts payable and accrued liabilities at June 30, 2011 (June 30, 2010 - $Nil).

Three month period ended June 30, 2011

During the three months ended June 30, 2011, companies controlled by officers and directors of the Corporation were paid $28,500 (June 30, 2010 - $80,000) in consulting fees in relation to the operations of the Corporation, which are included in general and administrative expenses in the statement of operations. At June 30, 2011 no amount was outstanding in accounts payable and accrued liabilities (June 30, 2010 – $Nil).

During the three months ended June 30, 2011, companies controlled by former officers and directors of the Corporation were paid $3,620 (June 30, 2010 - $Nil) in consulting fees in relation to the operations of the Corporation, which are included in general and administrative expenses in the statement of operations. At June 30, 2011 no amount was outstanding in accounts payable and accrued liabilities (June 30, 2010 – $Nil).

During the three months ended June 30, 2011, the Corporation incurred legal costs of $33,757 (June 30, 2010 - $119) with a law firm in which the Corporate secretary is a Partner. The legal costs incurred were in the normal course of operations and were based on the exchange value of the service provided. Of the legal services provided, $Nil were included in accounts payable and accrued liabilities at June 30, 2011 (June 30, 2010 - $Nil)

8. SUBSEQUENT EVENTS

On July 27, 2011, the Corporation announced that it had signed a purchase and sale agreement related to its Bodo properties. The properties have been sold in two concurrent arms length transactions for total gross proceeds of $6,800,000 with an effective date of July 1, 2011. Shareholder approval of the transaction was received on September 14, 2011. The closing of the transaction is still awaiting final regulatory approval.

9. OFF-BALANCE SHEET TRANSACTIONS

As at October 26, 2011, the Corporation does not have any off-balance sheet arrangements.

10. FUTURE ACCOUNTING PRONOUNCEMENTS:

International Financial Reporting Standards (“IFRS”):

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The Corporation’s IFRS conversion project has been broken down into the following phases:

- Phase 1 Diagnostic – identification of potential accounting and reporting differences between Canadian GAAP and IFRS.
- Phase 2 Planning – establishment of project governance, processes, resources, budget and timeline.
- Phase 3 Policy Delivery and Documentation – establishment of accounting policies under IFRS.
- Phase 4 Policy Implementation – establishment of processes for accounting and reporting, IT change requirements, and education.
- Phase 5 Sustainment –on going compliance with IFRS after implementation.

The Corporation has substantially completed its IFRS conversion project. Significant differences were identified in accounting for Petroleum and natural gas properties and equipment ("P&NG"), including exploration costs, depletion and depreciation, impairment testing, and asset retirement obligations. Other significant differences were noted in accounting for the treatment of flow-through shares and income taxes. A summary of the significant differences identified is included below. In addition, certain IFRS standards may change after adoption in 2011, and the impact of these potential changes is not known.

Summary of Identified IFRS Accounting Policy Differences

Petroleum and natural gas properties and equipment

Adoption of IFRS will significantly impact the Corporation's accounting policies for P&NG. For Canadian GAAP purposes, the Corporation follows the full cost method of accounting for its conventional crude oil and natural gas properties and equipment as prescribed by Accounting Guideline 16 ("AcG16"). Application of the full cost method of accounting is discussed in the "Significant Accounting Policies" section of the June 30, 2011 annual financial statements. Significant differences in accounting for P&NG under IFRS include:

- Pre-exploration costs must be expensed. Under full cost accounting, these costs are currently included in the country cost centre.
- Exploration and evaluation costs will be initially capitalized as exploration and evaluation assets. Once technical feasibility and commercial viability of reserves is established for an area, the costs will be transferred to developed and producing assets ("D&P"). If technically feasible and commercially viable reserves are not established for a new area, the costs must be expensed. Under full cost accounting, exploration and evaluation costs are currently disclosed as P&NG but withheld from depletion. Costs are transferred to the depletable assets when proved reserves are assigned or when it is determined that the costs are impaired.
- D&P for producing properties will be depreciated at an asset level. Under full cost accounting, P&NG is depleted on a country cost centre basis.
- Impairment of D&P will be tested at a cash generating unit level (the lowest level at which cash inflows can be separately identified). Under full cost accounting, impairment is tested at the country cost centre level.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" issued by the IASB includes a transition exemption for oil and gas companies following full cost accounting under their previous GAAP. The transition exemption allows full cost companies to allocate their existing full cost P&NG balances using reserve values or volumes to IFRS compliant units of account without requiring retroactive adjustment, subject to an initial impairment test. The Corporation intends to adopt this transition exemption. After initial adoption, future impairment charges may be reversed.

Asset Retirement Obligations

Canadian GAAP accounting requirements for asset retirement obligations ("ARO") are discussed in the "Significant Accounting Policies" section of the June 30, 2011 annual financial statements. A significant difference in accounting for ARO under IFRS is that the liability must be re-measured at each balance sheet

date using the risk free rates, whereas under Canadian GAAP the credit adjusted discount rates do not change once the liability is recorded. On transition to IFRS, the change in ARO liability on P&NG for which the full cost exemption above is applied must be recorded in retained earnings. In future periods, the impact of changes in discount rates on the ARO liability for all D&P is adjusted to D&P.

Flow-Through Shares

IFRS does not specifically address the accounting for flow-through shares or the related tax consequences arising from such transactions. In the absence of an IFRS that specifically applies to the transaction, IAS 8 allows the Corporation to consider the most recent pronouncements of other accounting standard-setting bodies that use a similar conceptual framework.

Under Canadian GAAP, the accounting treatment would credit share capital with the full proceeds received from the flow-through issuance, and on the date of renouncement, a future income tax liability would be recognized and the stated value of the share capital would be reduced accordingly. Whereas under IFRS the proceeds of the issuance would be allocated between the offering of the shares and the sale of the tax benefits. The allocation is based on the difference between the quoted price of the existing shares and the amount the investor pays for the flow-through shares. A liability is recognized for this difference. The liability is reversed when the tax benefits are renounced and a deferred tax liability is recognized. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

The Corporation will need to adjust all flow-through transaction retrospectively to account for the change in accounting treatment.

Income Taxes

Both Canadian GAAP and IFRS follow the liability method of accounting for income taxes, where tax liabilities and assets are recognized on temporary differences. However, there are certain exceptions to the treatment of temporary differences under IFRS that may result in an adjustment to the Corporation's future tax asset or liability under IFRS. In addition, the Corporation's future tax asset or liability will be impacted by the tax effects of any changes noted in the above areas.

Other IFRS 1 Exemptions

The Corporation also intends to adopt the following IFRS 1 transition exemptions:

- IFRS 1 election to not restate the cumulative transaction differences prior to July 1, 2010.
- IFRS 1 election to not restate the Corporations share based payments that have fully vested prior to July 1, 2010.
- IFRS 1 election to determine lease arrangements as at the transition date.
- IFRS 1 election to not restate any borrowing costs incurred prior to July 1, 2010.

11. FINANCIAL INSTRUMENTS

The Corporation's financial instruments as at June 30, 2011 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt. The Corporation records its financial instruments at their carrying amounts which approximates fair value, unless otherwise disclosed in the consolidated financial statements. The carrying amounts approximate fair values due to the short term maturities of these financial instruments.

12. COMMITMENTS

On December 10, 2009, the Corporation issued 10,000,000 flow-through common shares at $0.17 per share for gross proceeds of $1,700,000. As at December 31, 2010, the Corporation had incurred $1,700,000 in exploration and development costs towards this flow-through share obligation satisfying the terms of this flow-through share offering.

The Brazilian properties required the completion of a minimum exploration program ("MEP") work unit commitments on the properties over a two year period commencing March 2008. MEP work units are satisfied through completion of seismic programs and other exploratory survey methods. MEP commitments over the two-year period could cost up to $692,000, for which a financial guarantee was provided. On August 18, 2010, the Corporation received notice from the holder of its guarantee in Brazil, that an amount may become payable if the MEP work unit commitments were not completed per the Brazilian National Agency of Petroleum, Natural gas and Biofuels ("ANP"). The Corporation is reviewing the past expenditures related to its Brazilian operations and has submitted support to ANP what it believes qualify under the MEP for their review. At this time, the outcome of this notice is not determinable.

After the expiry of the licenses on the Brazilian properties, the Corporation was informed that there may be a claim in regards to this guarantee.

13. DISCLOSURE OF OUTSTANDING SHARE DATA (as at October 27, 2011)

Authorized and Issued Share Capital

Class	Par Value	Authorized	Issued
Common	Nil	Unlimited	60,039,144
Preferred	Nil	Unlimited	Nil

Description of Options and Contingent Performance Rights Outstanding

Security Type	Number	Exercise Price	Expiry Date	Recorded Value
Options	575,000	$0.10	February 23, 2014	N/A
Options	185,000	$0.15	May 6, 2014	N/A
Options	725,000	$0.15	September 1, 2014	N/A

14. FORWARD LOOKING STATEMENTS

Certain statements contained in this Management's Discussion and Analysis may constitute forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual Management's Discussion and Analysis should not be unduly relied upon by investors. These statements speak only as of the date of this Management's Discussion and Analysis and are expressly qualified, in their entirety, by this cautionary statement.

In particular, this Management's Discussion and Analysis contains forward-looking statements, pertaining to the following:

- the quantity of reserves;
- capital expenditure programs;

- treatment under governmental regulatory and taxation regimes; and
- expectations regarding the Corporation's ability to raise capital and to continually add to reserves through acquisitions and development.

With respect to forward-looking statements contained in this Management's Discussion and Analysis, the Corporation has made assumptions regarding, among other things:

- the Corporation's ability to obtain additional financing on satisfactory terms.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this management discussion and analysis:

- geological, technical, drilling and processing problems;
- liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations;
- incorrect assessments of the value of acquisitions;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; and
- the other factors referred to under "Risk Factors".

The forward-looking statements or information contained in this Management's Discussion and Analysis are made as of the October 27, 2011.

15. RISK FACTORS

Overview

The Corporation's primary business consists of the exploration and, if successful, the development of gas properties in Canada. There are a number of inherent risks associated with the exploration, development and production of oil and gas reserves, many of these risks are beyond the control of the Corporation.

Success in the junior oil and gas sector is measured by a Corporation's ability to raise funds and the ability to secure properties of merit. Not all of these factors are within management's control. The ability to raise funds is in part dependent on the state of the junior resource stock market, which in turn is dependent on the economic climate, oil and gas prices and perceptions as to which way the market is headed. The ability to secure properties of merit is in large part dependent on management's contacts and the vitality of the sector.

Oil and Gas Exploration and Development - General

Exploration, appraisal and development of oil and gas reserves are speculative and involve a significant degree of risk. There is no guarantee that exploration or appraisal of the properties in which the Corporation holds rights will lead to a commercial discovery or, if there is commercial discovery, that the Corporation will be able to realize such reserves as intended. Few properties that are explored are ultimately developed into new reserves. If at any stage the Corporation is precluded from pursuing its exploration or development programs, or such programs are otherwise not continued, the Corporation's business, financial condition and/or results of operations and, accordingly, the trading price of the Common Shares, is likely to be materially adversely affected.

Oil and gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Corporation will result in discoveries of oil, condensate or natural gas that are commercially or economically possible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones

and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Corporation's operations are subject to the general risks of exploration, development and operation of oil, condensate and natural gas properties and the drilling of wells thereon, including encountering unexpected formations or pressure, premature declines of reservoirs, blow-outs, catering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on the Corporation. The Corporation may become subject to liability for pollution, blow-outs or other hazards. The payment of such liabilities could reduce the funds available to the Corporation or could result in a total loss of its properties and assets.

Oil and natural gas exploration and development activities are dependent on the availability of skilled personnel, drilling and related equipment in the particular areas where such activities will be conducted. Demand for such personnel or equipment, or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

Uninsurable Risks

In the course of exploration, development and production of oil and gas properties, certain risks, and in particular, blowouts, pollution, and premature decline of reservoirs and invasion of water into producing formations may occur. Hazards such as unusual or unexpected geological formations, pressures or other conditions may be encountered in drilling and operating wells as the Corporation will initially have interests in a limited number of properties, such risk is more significant than if spread over a number of properties. It is not always possible to fully insure against such risks and the Corporation may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Corporation. Insurance against damages caused by terrorism, and acts of war, is generally not available.

Although the Corporation intends to obtain insurance to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects. There can be no assurance that insurance will be available in the future.

Industry Risks

The Corporation's ability to acquire reserves will depend on its ability to select and acquire suitable producing properties or prospects. Competitive factors in the distribution and marketing of oil and gas include price methods and reliability of delivery. The marketability of oil and natural gas produced by the Corporation, if any, will also be affected by numerous other factors beyond the control of the Corporation. These factors include market fluctuations, the world price of oil, the supply and demand for oil and natural gas, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulations, including regulations relating to prices, taxes, royalties, land tenure, production allowable, the import and export of oil and natural gas and environmental protection. The effect of these factors cannot be accurately predicted.

Prices and Markets for Crude Oil, Condensate and Natural Gas

Oil, condensate and natural gas are commodities whose prices are determined based on global demand, supply and other factors all of which are beyond the control of the Corporation. World prices for oil and condensate have fluctuated widely in recent years. Future price fluctuations in world oil prices will have a significant impact upon the projected revenue of the Corporation and the projected return from and the financial viability of the Corporation's existing and future reserves.

Alternatives to/Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices will reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products and any major changes would have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flow.

Competition

The oil and gas industry is intensely competitive and the Corporation will compete with a substantial number of other companies, many of which have greater financial resources. Many such companies not only explore for and produce oil, condensate and natural gas, but also carry on refining operations and market petroleum and other products on a global basis. There is also competition between the petroleum industry and other industries supplying energy and fuel to industrial, commercial and individual consumers. There is no assurance that the Corporation will be able to successfully compete against such competitors.

Governmental Regulation

The oil and gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase the Corporation's costs and have a material adverse effect on the Corporation.

Permits and Licenses

The operations of the Corporation may require licenses and permits for various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and operations of its projects.

Environmental Regulation

The Corporation's operations are, and its future operations will be, subject to environmental regulations promulgated by the Saskatchewan, Alberta or other governments from time to time in the provinces where the Corporation carries on business. Current environmental legislation in these provinces provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards and enforcement, and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of fines and penalties, any of which may be material. There can be no assurance that these environmental costs will not have a material adverse effect on the Corporation's financial condition or results of operations in the future.

Legal Proceedings

The Corporation is involved in litigation from time to time in the ordinary course of business. Although the Corporation is currently not a party to any material legal proceedings, legal proceedings could be filed against the Corporation in the future. No assumption can be given as to the final outcome of any legal proceedings or that the ultimate resolutions will not have a material adverse effect on the Corporation.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the quoted market price, if any, for the Common Shares will be subject to market trends generally, notwithstanding the financial and operational performance of the Corporation.

Dilution and Future Sales of Common Shares

The Corporation may issue additional shares in the future, which may dilute a shareholder's holdings in the Corporation. The Corporation's articles permit the issuance of an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series and shareholders will have no pre-emptive rights in connection with further issuances. The directors of the Corporation have the discretion to determine the provisions attaching to any series of preferred shares and the price and terms of further issuances of Common Shares.

No Assurance of Title

Title to or rights in oil and gas properties may involve certain inherent risks due to problems arising from the ambiguous conveyance history characteristic of many such properties. Although the Corporation will conduct reasonable investigations (including the employment of local legal counsel to inform itself as to the status of properties) with respect to the validity of ownership of and the ability of sellers to transfer interests to it, there can be no assurance that it will hold good and marketable title to all of its properties. If a title defect does exist, it is possible that the Corporation may lose all or a portion of its interest in properties to which the title defect relates.

Dependence on Key Personnel

The success of the Corporation is dependent on the services of a number of members of senior management. The experience of these individuals will be a factor contributing to the Corporation's continued success and growth. The Corporation does not have any key man insurance policies, and therefore there is a risk that the death or departure of one or more of these individuals could have a material adverse effect on the Corporation.

Reserve Replacement

The Corporation's future oil and natural gas reserves, productions, and cash flows to be derived there from are highly dependent on the Corporation's successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas. Should the Corporation not discover additional reserves, current operations may not be sustainable.

Reliance on Strategic Relationships

The Corporation's existing business relies on relationships with local government bodies and, other oil and gas companies. There can be no assurances that these strategic relationships will continue to be maintained although at present management is not aware of any issues regarding its strategic relationships.

Conflicts of Interest

There are potential conflicts of interest which the directors and officers of the Corporation may be subject in connection with the operations of the Corporation. Some of the directors and officers of the Corporation

may be, or may become, engaged in the oil and gas industry, and situations may arise where directors, officers and promoters will be in direct conflict with the Corporation. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the ABCA, and the applicable statutes of the jurisdictions of incorporation of the Corporation's subsidiaries.

16. DEFINITIONS

In this Managements Discussion and Analysis the terms below have the meanings indicated:

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	Mmcf	million cubic feet
Mbbls	thousand barrels	Mcf/d	thousand cubic feet per day
bbls/d	barrels per day	NGLs	natural gas liquids

Other

API° an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.

APO after payout

BOE barrel of oil equivalent on the basis of 1 BOE to 6 Mcf of natural gas. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 1 BOE for 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

BOE/D barrel of oil equivalent per day

BPO before payout

Mboe 1,000 barrels of oil equivalent

Proved means those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves

Probable means those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves

17. ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on SEDAR at www.sedar.com.