Condensed Consolidated Financial Statements of

BLACKHAWK RESOURCE CORP.

Periods ended December 31, 2011 and 2010

BLACKHAWK RESOURCE CORP.

February 28, 2012

Management's Report to the Shareholders

Management is responsible for the reliability and integrity of these financial statements. The accompanying condensed consolidated financial statements have been prepared by management in accordance with International Accounting Standards ("IAS") 34 - Interim Financial Reporting and are in accordance with International Financial Reporting Standards ("IFRS") 1 - First-time Adoption of IFRS, as they are part of the period covered by the Corporation's first IFRS financial statements for the year ending June 30, 2012. The interim consolidated financial statements are presented in Canadian Dollars.

The accompanying condensed consolidated financial statements have been prepared using policies and procedures established by management and reflect fairly the Corporation's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the financial statements. Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and financial information is reliable and accurate.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board, which is composed of a majority of non-management directors. The Audit Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and to recommend approval of the consolidated financial statements to the Board.

The following interim condensed consolidated financial statements are unaudited.

Signed *"David Antony"*
David Antony, CEO

Signed *"Charidy Lazorko"*
Charidy Lazorko, CFO

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Balance Sheets
(Unaudited)

	December 31, 2011	June 30, 2011	July 1, 2010
		(note 19)	(note 19)
Assets			
Current assets:			
Cash and cash equivalents	$ 10,265	$ 19,638	$ 305,959
Accounts receivable (note 17(a))	277,570	349,482	528,832
Prepaid expenses and deposits	27,688	40,946	195,683
	315,523	410,066	1,030,474
Exploration and evaluation assets (note 8)	–	1,022,726	–
Property, plant and equipment (note 9)	5,554,632	5,318,232	5,103,516
Assets held for sale (note 6)	–	5,352	5,108
	$ 5,870,155	**$ 6,756,376**	**$ 6,139,098**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities (note 17(b))	$ 188,925	$ 460,894	$ 1,451,925
Share subscription proceeds received in advance (note 21)	357,500	–	–
Bank debt (note 10)	2,025,000	2,550,000	–
	2,571,425	3,010,894	1,451,925
Shareholder loans (note 11)	–	–	1,000,000
Asset retirement obligations (note 12)	563,568	528,255	510,239
Shareholders' equity			
Share capital (note 13)	6,049,352	6,049,352	4,441,166
Performance rights (note 13(d))	–	–	853,937
Contributed surplus (note 14)	567,280	439,174	427,706
Deficit	(3,881,470)	(3,271,299)	(2,545,875)
	2,735,162	3,217,227	3,176,934
Basis of presentation and going concern (note 2)			
Commitments (note 20)			
Subsequent events (note 21)			
	$ 5,870,155	**$ 6,756,376**	**$ 6,193,098**

See accompanying notes to condensed consolidated financial statements.

Approved by the Board of Directors on February 28, 2012

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Statements of Comprehensive income (loss)
for the three and six month period ended December 31, 2011 and 2010
(Unaudited)

	3 months		6 months	
	2011	**2010**	**2011**	**2010**
Revenue				
Oil and natural gas revenue	$ 774,734	$ 910,875	$ 1,236,227	$ 1,821,806
Less: royalties	(201,745)	(23,020)	(330,534)	(169,663)
Interest and other revenue (note 9)	256,445	–	262,192	331
	829,434	887,855	1,167,885	1,652,474
Expenses				
Depletion	294,697	376,907	501,889	630,914
Write down of property, plant and equipment	427,580	5,841	427,580	5,841
Field operating expenses	128,009	350,692	398,628	502,374
General and administrative (note 16)	95,660	309,897	209,674	433,191
Professional fees (note 16)	16,238	197,509	34,790	248,370
Stock based compensation	128,106	–	128,106	11,468
Asset Retirement obligation accretion (note 12)	2,784	2,537	5,528	5,452
Interest and bank charges	32,591	24,316	66,507	50,889
	1,125,665	1,267,699	1,772,702	1,888,499
Income (loss) from continued operations	(296,231)	(379,844)	(604,817)	(236,025)
Discontinued operations (note 6)	(1)	(59)	(5,354)	(3,608)
Net comprehensive income (loss)	**$ (296,232)**	**$ (379,903)**	**$ (610,171)**	**$ (239,633)**
Loss per share (note 15):				
Basic	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.00)
Diluted	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.00)

See accompanying notes to condensed consolidated financial statements.

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Statements of Changes in Equity
(Unaudited)

	December 31, 2011	June 30, 2011	December 31, 2010
Share capital			
Balance, beginning of period	$ 6,049,352	$ 4,441,166	$ 4,441,166
Issued pursuant to performance rights	–	1,608,186	1,608,186
Balance, end of period	6,049,352	6,049,352	6,049,352
Performance rights			
Balance, beginning of period	–	853,937	853,937
Performance rights exercised	–	(853,937)	(853,937)
Balance, end of period	–	–	–
Contributed surplus			
Balance, beginning of period	439,174	427,706	427,706
Stock based compensation	128,106	11,468	11,468
Balance, end of period	567,280	439,174	439,174
Deficit			
Balance, beginning of period	(3,271,299)	(2,545,875)	(2,545,875)
Net income (loss) (note 19)	(610,171)	(725,424)	(239,633)
Balance, end of period	(3,881,470)	(3,271,299)	(2,785,508)
Shareholders' equity	**$ 2,735,162**	**$ 3,217,277**	**$ 3,703,018**

See accompanying notes to condensed consolidated financial statements.

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Statements of Cash Flows for the three and six month period ended December 31, 2011 and 2010
(Unaudited)

	3 Month		6 Month	
	2011	**2010**	**2011**	**2010**
Cash provided by (used in):				
Operations:				
Income (loss) from operations	$ (296,231)	$ (379,844)	$ (604,817)	$ (236,025)
Items not affecting cash:				
Depletion	294,697	376,907	501,889	630,914
Write down of property, plant and equipment	427,580	5,841	427,580	5,841
Stock based compensation	128,106	–	128,106	11,468
Asset retirement obligation accretion	2,784	2,537	5,528	5,452
	556,936	5,441	458,286	417,650
Change in non-cash operating working capital:				
Decrease (increase) in accounts receivable	74,650	(155,645)	71,912	(67,680)
Decrease (increase) in prepaid expenses and deposits	4,304	4,095	13,258	171,241
Increase (decrease) in accounts payable and accrued liabilities	(168,764)	160,660	(271,969)	(771,163)
	467,126	14,551	271,487	(249,952)
Discontinued operations:				
Loss from discontinued operations	(1)	(59)	(5,354)	(3,608)
	(1)	(59)	(5,354)	(3,608)
Financing:				
Share subscription proceeds received in advance	357,500	–	357,500	–
Bank debt	(775,000)	1,025,000	(525,000)	2,550,000
Shareholder loans	–	–	–	(1,000,000)
	(417,500)	1,025,000	(167,500)	1,550,000
Investments:				
Property, plant and equipment	(69,227)	(1,025,227)	(108,006)	(1,575,544)
	(69,227)	(1,025,227)	(108,006)	(1,575,544)
Net change in cash and cash equivalents	(19,602)	14,265	(9,373)	(279,104)
Cash and cash equivalents, beginning of period	29,867	12,590	19,638	305,959
Cash and cash equivalents, end of period	**$ 10,265**	**$ 26,855**	**$ 10,265**	**$ 26,855**
Supplemental cash flow information:				
Interest paid	$ 32,951	$ 24,316	$ 66,507	$ 50,889

See accompanying notes to condensed consolidated financial statements.

1. General information:

Blackhawk Resource Corp. and its subsidiaries (collectively "Blackhawk" or "the Corporation") was incorporated under the Business Corporations Act (Alberta) on March 25, 1986. The Corporation is primarily engaged in the exploration and production of oil and natural gas in Western Canada.

The Corporation's registered office is located at Suite 650, 816 7th Ave SW, Calgary, Alberta, T2P 1A1.

2. Basis of preparation and going concern:

The interim consolidated financial statements for the three and six months ended December 31, 2011 have been prepared in accordance with IAS 34 - Interim Financial Reporting and are in accordance with IFRS 1 - First-time Adoption of IFRS, as they are part of the period covered by the Corporation's first IFRS financial statements for the year ending June 30, 2012. The interim consolidated financial statements are presented in Canadian Dollars.

The Corporation has incurred losses from operations and negative cash flows from operating activities due to decreased revenues and increased operating costs in the past quarter, and has an accumulated deficit at December 31, 2011. The Corporation will continue to evaluate exploration and development opportunities both in Canada and internationally. While these factors create doubt about the Corporation's ability to continue as a going concern, management is confident of achieving the Corporation's short term plans.

In the event the Corporation is unable to generate significant revenues and cash flows from operations it may need to seek further funding from its shareholders or alternative sources. There can be no assurances that management will be successful with these initiatives.

The financial statements have been prepared on the basis that the Corporation will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect adjustments in the carrying values of assets and liabilities reported, revenue or expenses and the statement of financial position classification used, that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

Statement of compliance

The December 31, 2011 interim consolidated financial statements are the Corporation's first financial statements prepared under IFRS, with a transition date to IFRS of July 1, 2011. Consequently the comparative figures for 2010 and the Corporation's statement of financial position as at July 1, 2010 and June 30, 2011 have been restated from Canadian generally accepted accounting principles ('Canadian GAAP') to comply with IFRS. The reconciliations to IFRS from the previously published Canadian GAAP financial statements are summarized in note 19. In addition, IFRS 1 on first time adoption allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used they are explained in note 19.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the interim consolidated financial statements are disclosed in note 5.

3. Significant accounting policies:

The condensed interim consolidated financial statements have been prepared on a historical cost basis with some exceptions in accordance with IAS 34, "Interim Financial Reporting," as detailed in the accounting policies set out below. These policies have been applied consistently for all periods presented in these condensed interim consolidated financial statements and in preparing the opening IFRS balance sheet as at July 1, 2010 (subject to certain exceptions allowed by IFRS 1) for the purpose of the transition to IFRS. See note 19 for details of the transition to IFRS.

a.) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Certain of the Corporation's activities are conducted through joint ventures where the Corporation has a direct ownership interest in jointly controlled assets. The income, expenses, assets and liabilities related to the jointly controlled assets are included in the consolidated financial statements in proportion to the Corporation's interest.

Inter-company transactions, balances and unrealised gains or losses with the subsidiary are eliminated. The financial statements of the subsidiary are prepared using consistent accounting policies with that of the Corporation.

b.) Cash and cash equivalents

Cash comprises cash on hand. Other investments (term deposits and certificates of deposit) with an original term to maturity at purchase of three months or less are reported as cash equivalents in the consolidated balance sheets.

c.) Exploration and evaluation assets

Exploration and evaluation ("E&E") assets consist of the Corporation's oil and natural gas exploration projects that are pending the determination of proved reserves. The Corporation accounts for E&E costs in accordance with the requirements of IFRS 6 "Exploration for and Evaluation of Mineral Resources".

E&E costs relating to activities to explore and evaluate oil and natural gas properties are initially capitalized and include costs associated with the acquisition of licenses, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, and the costs associated with retiring the assets. E&E costs do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore an area, which are recognized immediately in net earnings.

Once the technical feasibility and commercial viability of E&E assets are determined and a development decision is made by management, the E&E assets are tested for impairment upon reclassification to property, plant and equipment. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proved reserves are determined to exist.

E&E assets are also tested for impairment when facts and circumstances suggest that the carrying amount of E&E assets may exceed their recoverable amount, by comparing the relevant costs to the fair value of Cash Generating Units ("CGUs"), aggregated at the segment level. Indications of impairment include leases approaching expiry, the existence of low benchmark commodity prices for an extended period of time, significant downward revisions in estimated reserves, increases in estimated future exploration or development expenditures, and significant adverse changes in the applicable legislative or regulatory frameworks.

d.) Property, plant and equipment

Exploration and production

Property, plant and equipment is measured at cost less accumulated depletion and depreciation and impairment provisions. When significant components of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for separately.

3. Significant accounting policies (continued):

The deemed cost of an asset comprises its purchase price, construction and development costs, costs directly attributable to bringing the asset into operation, the estimate of any asset retirement costs, and applicable borrowing costs. Property acquisition costs are comprised of the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The cost of property, plant and equipment at July 1, 2010, the date of transition to IFRS, was determined as described in Note 19.

Oil and natural gas properties are depleted using the unit-of-production method over proved reserves. The unit of- production rate takes into account expenditures incurred to date, together with future development expenditures required to develop proved reserves.

Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognized in net earnings.

Impairment

The Corporation assesses property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. Indications of impairment include the existence of low benchmark commodity prices for an extended period of time, significant downward revisions of estimated reserves, or increases in estimated future development expenditures. If any such indication of impairment exists, the Corporation performs an impairment test related to the assets. Individual assets are grouped for impairment assessment purposes into CGU's, which are the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

In subsequent periods, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is re-estimated and the net carrying amount of the asset is increased to its revised recoverable amount. The recoverable amount cannot exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in net earnings. After a reversal, the depletion charge is adjusted in future periods to allocate the asset's revised carrying amount over its remaining useful life.

e.) Asset retirement obligations ("ARO")

A provision is made for the present value of the future cost of abandonment of oil and gas wells and related facilities. This provision is recognized when a legal or constructive obligation arises. The estimated costs, based on engineering cost levels prevailing at the reporting date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate, updated at each reporting date that reflects current market assessments of the time value of money and the risks specific to the obligation. The corresponding amount is capitalized as part of exploration and evaluation expenditure or oil and gas properties and is amortized on a unit-of-production basis as part of the depreciation, depletion and amortization charge. Any adjustment arising from the reassessment of estimated cost of ARO is capitalized, whilst the charge arising from the accretion of the discount applied to the ARO is treated as a component of finance costs.

f.) Foreign currency translation

Items included in the financial statements of the Corporation and its subsidiaries are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

The subsidiaries have the same functional currency as that of the Corporation and translates foreign denominated monetary assets and liabilities at the exchange rate prevailing at period end; non-monetary assets, liabilities and related depreciation at historic rates; revenues and expenses at the average rate of exchange for the period; and any resulting foreign exchange gains or losses are included in comprehensive loss.

3. Significant accounting policies (continued):

g.) Revenue recognition

Revenue associated with the sale of petroleum and natural gas production owned by the Corporation is recognized when the title passes from the Corporation to its customers and collection is reasonably assured.

The Corporation recognizes interest revenue as the interest is earned.

h.) Share-based compensation

The Corporation's Stock Option Plan (the "Option Plan") provides current employees with the right to elect to receive common shares in exchange for options surrendered. The Corporation records compensation expense over the graded vesting period based on the fair value of options granted. Compensation expense is recorded in earnings as stock based compensation expense with a corresponding credit to contributed surplus. When stock options are exercised, the proceeds, together with the amount recorded in contributed surplus, are recorded in share capital. The fair value of stock options granted is estimated using the Black-Scholes option pricing model, taking into account amounts that are believed to approximate the forfeiture rate, volatility of the trading price of the Corporation's shares, the expected lives of the awards of stock-based compensation, the fair value of the Corporation's stock and the risk-free interest rate, as determined at the grant date.

i.) Financial instruments

The Corporation classifies its financial instruments into one of the following categories: fair value through profit or loss; held-to-maturity investments; loans and receivables; and financial liabilities measured at amortized cost. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods is dependent on the classification of the respective financial instrument.

Fair value through profit or loss financial instruments are subsequently measured at fair value with changes in fair value recognized in net earnings. All other categories of financial instruments are measured at amortized cost using the effective interest method.

Cash, cash equivalents are classified as fair value through profit or loss. Accounts receivable are classified as loans and receivables. Accounts payable, accrued liabilities, share subscription proceeds received in advance, and bank debt are classified as other financial liabilities measured at amortized cost.

Financial assets and liabilities are also categorized using a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements for these assets and liabilities. The fair values of financial assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Cash and cash equivalents are measured at level 1. Fair values of financial assets and liabilities in Level 2 are based on inputs other than Level 1 quoted prices that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices). The fair values of Level 3 financial assets and liabilities are not based on observable market data. The disclosure of the fair value hierarchy excludes financial assets and liabilities where book value approximates fair value due to the liquid nature of the asset or liability.

Transaction costs in respect of financial instruments at fair value through profit or loss are recognized immediately in comprehensive loss. Transaction costs in respect of other financial instruments are included in the initial measurement of the financial instrument.

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, an impairment loss is recognized in comprehensive loss.

Impairment losses on financial assets carried at amortized cost, including loans and receivables, are calculated as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

3. Significant accounting policies (continued):

j.) Comprehensive loss

Comprehensive loss is comprised of the Corporation's net loss and other comprehensive loss. Other comprehensive loss includes the effective portion of foreign currency translation gains and losses on the net investment in self-sustaining foreign operations. Other comprehensive loss is shown net of related income taxes.

k.) Per common share amounts

Basic loss per share, is calculated using the weighted average number of shares outstanding during the period. Diluted loss per share, is calculated by using the treasury stock method.

l.) Flow through shares

The Corporation will from time to time issue flow-through shares to finance portions of its capital expenditure program. Pursuant to the terms of the flow-through share agreement, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, the proceeds of the issuance of flow through shares are 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 subscriber 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.

4. Future accounting standards:

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2010 or later periods. The standards impacted that are applicable to the Corporation are as follows:

a) IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Corporation is currently assessing the impact of this standard.

b) IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Corporation. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Corporation is currently assessing the impact of this standard.

c) IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Corporation is currently assessing the impact of this standard.

d) IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact of this standard.

4. Future accounting standards (continued):

e) IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation is currently assessing the impact of this standard.

5. Critical accounting estimates and judgments:

The Corporation has made estimates and assumptions regarding certain assets, liabilities, revenues and expenses in the preparation of the consolidated financial statements. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a.) Estimates of crude oil and natural gas reserves

Depletion, and amounts used in impairment calculations are based on estimates of oil and natural gas reserves. Reserve estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to many uncertainties and interpretations. The Corporation expects that, over time, its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels, and may be affected by changes in commodity prices.

b.) Asset retirement obligations

The calculation of asset retirement obligations includes estimates of the future costs and the timing of the cash flows to settle the liability, the discount rate used in reflecting the passage of time, and future inflation rates.

c.) Share-based compensation

The Corporation has made various assumptions in estimating the fair values of the common stock options granted including expected volatility, expected exercise behavior and future forfeiture rates. At each period end, options outstanding are re-measured for changes in the fair value of the liability.

d.) Identification of cash generating units

Cash generating units are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The classification of assets into cash generating units requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures, and the way in which management monitors the Corporation's operations.

6. Discontinued operations and asset held for sale:

During the year ended August 31, 2009, the Corporation changed its business to focus on oil and gas exploration and development in North America (see note 7). As such, the Corporation began to actively market its Brazilian properties. The results of operations of the Corporation's Brazilian oil and gas activities have been retroactively reclassified in the statement of operations as discontinued operations, net of income taxes. Details of the Corporation's activities are as follows:

(a) Details of the results of discontinued operations:

Discontinued operations comprised of the following for the period ended December 31, 2011 and 2010:

	December 31, 2011	**December 31, 2010**
Expenses		
General and administrative	$5,083	$ −
Professional fees	−	3,689
	5,083	3,689
Loss before other items	(5,083)	(3,689)
Other items		
Foreign exchange gain (loss)	(271)	81
Loss from discontinued operations	$(5,354)	$(3,608)

7. Acquisition of Black Bore Exploration Ltd.:

On September 1, 2009 the Corporation closed the acquisition of all of the issued and outstanding common shares of Black Bore Exploration Ltd. ("Black Bore"), an Alberta, Canada based oil and gas exploration and production company with operations focused in the Western Canadian Sedimentary Basin. The aggregate consideration paid by the Corporation 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 at no additional consideration upon satisfaction of the relevant production threshold. The business combination has been accounted for using the purchase method with the results included in the consolidated financial statements from the date of acquisition.

On August 27, 2010, the Corporation announced the vesting of the 75 BOE/D performance rights. The vesting of these rights resulted in the issuance of 7,694,671 common shares, valued at $0.14 per share.

On November 29, 2010, the Corporation announced the vesting of the 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.

As a result of the vesting of rights, the updated purchase price allocation is as follows:

Cost of acquisition	
Common shares issued (7,694,671 common shares)	$769,467
Performance rights exercised subsequent to acquisition	1,608,186
Total consideration	$2,377,653

7. Acquisition of Black Bore Exploration Ltd. (Continued):

Net assets acquired and liabilities assumed	
Petroleum and natural gas properties	$3,168,660
Working capital	(101,750)
Debenture payable	(267,644)
Shareholder loans	(100,000)
Asset retirement obligation	(323,613)
	$2,377,653

Included in working capital is $2,839 in cash and cash equivalents.

The debenture payable and shareholder loans were repaid in the month following the close of the acquisition.

8. Exploration and evaluation assets:

A reconciliation of the carrying amount of exploration and evaluation assets as at December 31, 2011, June 30, 2010 and July 1, 2010 is set out below.

	Edson Area, Alberta
Cost	
At July 1, 2010	$ –
Additions	1,022,726
Change in estimates of Asset retirement obligation	–
Impairment	–
At June 30, 2011	1,022,726
Additions	(4,657)
Change in estimates of Asset retirement obligation	9,481
Transfer to Property, plant and equipment	(1,027,580)
At December 31, 2011	**$ –**

9. Property, plant and equipment:

	Provost Area, Alberta	Greencourt Area, Alberta	Edson Area, Alberta	Queenstown Area, Alberta	Wood River Area, Alberta	Total
Cost						
At July 1, 2010	$7,670,935	$62,235	$ –	$290,097	$387,716	$8,410,983
Additions	1,348,042	17,184	–	27,326	39,982	1,432,534
At June 30, 2011	9,018,977	79,419	–	317,423	427,698	9,843,517
Additions	131,557	415	–	259	6,058	138,289
Transfer in from exploration and development	–	–	1,027,580	–	–	1,027,580
Impairment	–	–	(427,580)	–	–	(427,580)
At December 31, 2011	**$9,150,534**	**$79,834**	**$600,000**	**$317,682**	**$433,756**	**$10,581,806**
Accumulated depletion						
At July 1, 2010	$(3,016,457)	$(24,473)	$ –	$(114,075)	$(152,462)	$(3,307,467)
Expense	(1,091,992)	(32,790)	–	(31,499)	(61,537)	(1,217,818)
At June 30, 2011	(4,108,449)	(57,263)	–	(145,574)	(213,999)	(4,525,285)
Expense	(451,158)	(10,140)	–	(9,565)	(31,026)	(501,889)
At December 31, 2011	**$(4,559,607)**	**$(67,403)**	**$ –**	**$(155,139)**	**$(245,025)**	**$(5,027,174)**
Net book value						
July 1, 2010	$4,654,479	$37,762	$ –	$176,021	$235,253	$5,103,516
June 30, 2011	$4,910,528	$22,156	$ –	$171,849	$213,699	$5,318,232
December 31, 2011	**$4,590,927**	**$12,431**	**$600,000**	**$162,543**	**$188,731**	**$5,554,632**

On July 27, 2011, the Corporation signed a purchase and sale agreement related to its Bodo properties. The properties were to be sold in two concurrent arms length transactions for total gross proceeds of $6,800,000 with an effective date of July 1, 2011. The transaction was terminated on December 7, 2011 due to certain conditions not being met by the purchaser and a non-refundable deposit of $250,000 was included in other income.

10. Bank debt:

The Corporation has a demand operating facility of $3.3 million. The Corporation may borrow via Prime-based loans bearing interest at the prime bank rate plus 2 percent per annum. The credit facility is subject to industry standard covenants with a periodic review, occurring in February, 2012. The amount of the facility is subject to a borrowing base test performed on a periodic basis by the lender, based primarily on reserves and using commodity prices estimated by the lender, as well as other factors. A decrease in the borrowing base could result in a reduction to the credit facility which may require a repayment to the lender. The credit facility is secured against all properties and lands in Alberta. As of December 31, 2011, the Corporation was in compliance with all the covenants of the facility and $2,025,000 (June 30, 2011 - $2,550,000) had been drawn against it.

11. Shareholder loans:

During the 10 month period ended June 30, 2010, the Corporation entered into shareholder loan agreements with two shareholders of the Corporation. The loans bore interest at a rate of prime plus 3.5% per annum calculated monthly, were secured by a security agreement against all acquired property and all proceeds thereof and were due on September 30, 2011. On August 9, 2010, the loans were repaid in full.

12. Asset retirement obligation:

	December 31, 2011	June 30, 2011	July 1, 2010
Balance, beginning of period	$528,255	$510,239	$510,239
Additions	9,335	–	–
Asset retirement obligation accretion	5,528	11,452	–
Revision of estimates	20,450	6,564	–
Balance, end of period	**$563,568**	**$528,255**	**$510,239**

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets, including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations as at December 31, 2011 is approximately $601,305 (June 30, 2011 and July 1, 2010 - $590,014), which is expected to be incurred over the next year to 15 years. An inflation factor of 3% per annum was applied to determine the expected future costs and an average risk free rate of 1.32% was used to calculate the present value of the estimated future asset retirement obligation at December 31, 2011 (June 30, 2011 – 2.10%, July 1, 2010 – 2.33%).

13. Share capital:

(a) Authorized:

Unlimited number of common voting shares and preferred shares

(b) Issued:

	Number of Shares	Amount
Balance, July 1, 2010	47,727,671	$4,441,166
Issued pursuant to performance rights (note 13 (d))	12,311,473	1,608,186
Balance, June 30, 2011	60,039,144	6,049,352
Balance, December 31, 2011	**60,039,144**	**$6,049,352**

13. Share capital (continued):

(c) Stock options:

The Corporation has implemented a stock option plan for Directors, Officers, employees, and consultants. The exercise price of each option approximates the market price for the common shares on the date the option was granted. Options granted under the plan generally vest over an eighteen month period from the date of the grant and expire five years after the grant date. The maximum number of common shares to be issued upon the exercise of options granted under the plan is 6,003,914 (June 30, 2011 – 6,003,914) common shares. The details of this plan are as follows:

	December 31, 2011		June 30, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of period	1,485,000	$0.13	3,085,000	$0.14
Granted	4,400,000	$0.10	–	–
Expired	–	–	(1,600,000)	$0.15
Options outstanding, end of period	**5,885,000**	**$0.11**	**1,485,000**	**$0.13**
Exercisable, end of period	**2,951,667**	**$0.12**	**1,485,000**	**$0.13**

The following table summarizes information about stock options outstanding at December 31, 2011:

Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price
$0.10	575,000	2.15 years	$0.10
$0.15	185,000	2.35 years	$0.15
$0.15	725,000	2.67 years	$0.15
$0.10	4,400,000	4.93 years	$0.10
	5,885,000	**4.30 years**	**$0.11**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price
$0.10	575,000	2.15 years	$0.10
$0.15	185,000	2.35 years	$0.15
$0.15	725,000	2.67 years	$0.15
$0.10	1,466,667	4.93 years	$0.10
	2,951,667	**3.67 years**	**$0.12**

13. Share capital (continued):

(d) Performance rights:

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 the Corporation 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 upon satisfaction of the relevant production threshold. This transaction resulted in the issuance of performance rights to acquire a further 12,311,473 Blackhawk common shares.

Each whole BOE/D performance right will entitle the holder to acquire at any time before the 18 month anniversary from issuance of such BOE/D performance right, without action or payment of any additional consideration, one Blackhawk share, provided the relevant production threshold is for three consecutive months, measured on a monthly average basis.

On August 27, 2010, the Corporation announced the vesting of the 75 BOE/D performance rights. The vesting of these rights resulted in the issuance of 7,694,671 common shares of the Corporation valued at $0.14 per share.

On November 29, 2010, the Corporation announced the vesting of the 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.

14. Contributed surplus:

The following table reconciles the Corporation's contributed surplus:

	December 31, 2011	June 30, 2011	July 1, 2010
Balance, beginning of period	$439,174	$427,706	$427,706
Stock based compensation	128,106	11,468	–
Balance, end of period	**$567,280**	**$439,174**	**$427,706**

15. Per share amounts:

Loss per share on a diluted weighted average basis is the same as that presented for basic as all factors are anti-dilutive. The number of shares that would have been included in the computation of diluted earnings per share would have been as follows:

Six months ended December 31,	2011	2010
Weighted average shares outstanding, basic	60,039,144	53,841,589
Effect of stock options	–	161,920
Weighted average shares outstanding, diluted	60,039,144	54,003,509

Three months ended December 31,	2011	2010
Weighted average shares outstanding, basic	60,039,144	57,028,186
Effect of stock options	–	132,061
Weighted average shares outstanding, diluted	60,039,144	57,160,247

In calculating diluted loss per common share for the three and six month periods ended December 31, 2011 and 2010, the Corporation excluded 5,885,000 (2010 – 1,710,000) stock options as the exercise price is greater than the average market price of the common shares for the period.

16. Related party transactions:

For the six month period ended December 31, 2011 the Corporation incurred consulting fees of $57,000 (2010 – $134,211) paid to companies which are controlled by certain directors and officers of the Corporation, which are included in general and administrative on the statement of loss. At December 31, 2011 no amounts remained outstanding (2010 – $Nil).

During the six month period ended December 31, 2011, the Corporation incurred legal costs of $22,472 (2010 - $8,871) 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, $9,649 were included in accounts payable at December 31, 2011 (2010 - $Nil).

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 two parties and management believes to approximate fair value.

17. Financial instruments:

The carrying values of the Corporation's financial instruments by category were as follows:

December 31, 2011				
Asset (liability)	**Fair value through profit or loss**	**Loans and receivables at amortized cost**	**Financial liabilities at amortized cost**	**Total**
Cash and cash equivalents	$10,265	$ –	$ –	$10,265
Accounts receivable	–	277,570	–	277,570
Accounts payable and accrued liabilities	–	–	(188,925)	(188,925)
Share subscription proceeds received in advance	–	–	(357,500)	(357,500)
Bank debt	–	–	(2,025,000)	(2,025,000)
	$10,265	**$277,570**	**$(2,571,425)**	**$(2,283,590)**

June 30, 2011				
Asset (liability)	**Fair value through profit or loss**	**Loans and receivables at amortized cost**	**Financial liabilities at amortized cost**	**Total**
Cash and cash equivalents	$19,638	$ –	$ –	$19,638
Accounts receivable	–	349,482	–	349,482
Accounts payable and accrued liabilities	–	–	(460,894)	(460,894))
Bank debt			(2,550,000)	(2,550,000)
	$19,638	**$349,482**	**$(3,010,894)**	**$(2,641,774)**

17. Financial instruments (continued):

July 1, 2010				
Asset (liability)	**Fair value through profit or loss**	**Loans and receivables at amortized cost**	**Financial liabilities at amortized cost**	**Total**
Cash and cash equivalents	$305,959	$ –	$ –	$305,959
Accounts receivable	–	528,832	–	528,832
Accounts payable and accrued liabilities	–	–	(1,451,925)	(1,451,925)
Shareholder loans	–	–	(1,000,000)	(1,000,000)
	$305,959	**$528,832**	**$(2,451,925)**	**$(1,617,134)**

The carrying value of the Corporation's financial instruments approximate their fair value.

Financial risk factors

a.) Credit risk:

The Corporation is subject to credit risk in its cash and cash equivalents and accounts receivable. At December 31, 2011, the Corporations accounts receivable of $277,570 consisted of $224,298 due from petroleum marketers, $34,847 due from joint venture partners, and $18,425 of other receivables.

The Corporation's receivables are normally collected within a 60-90 day period. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation has not experienced any collection issues with its petroleum and natural gas marketers. The Corporation attempts to mitigate the risk from joint-venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint-venture partners as disagreements occasionally arise that increases the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint-venture partners. The Corporation is also exposed to credit risk with regards to its customers refusing payment.

Cash and cash equivalents, when outstanding, consist of cash bank balances and short-term deposits maturing in 90 days or less. The Corporation manages the credit exposure related to short term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return.

b.) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking harm to the Corporation's reputation.

The following are the contractual maturities of financial liabilities as at December 31, 2011:

Financial Liabilities	< One Year	> One Year
Accounts payable and accrued liabilities	$188,925	$ –
Share subscription proceeds received in advance	357,500	–
Bank debt	2,025,000	–
Total	**$2,571,425**	**$ –**

17. Financial instruments (continued):

c.) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to control market risk exposures within acceptable limits, while maximizing returns.

- Interest rate risk is the risk that future cash flows will fluctuate as a result in changes in market interest rates. The Corporation is exposed to interest rate risk to the extent the changes in market interest rates will impact the Corporation's bank debt, which has a rate of prime plus 2%. The Corporation has not entered into any interest rate swaps or financial contracts to date. With regards to interest rate risk, a change of 1% in the effective interest rate would have an impact of approximately $20,250 on operations.

- Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also world economic events that dictate the levels of supply and demand. The effect of a 10% change in the commodity price would have an impact on the statement of loss of $77,465. The Corporation does not engage in derivative contacts to minimize commodity price risk.

18. Capital disclosures:

The Corporation's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Corporation sets the amount of capital in proportion to risk. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Corporation may issue new shares, or engage in debt financing.

19. Transition to IFRS:

Reconciliations of the Consolidated Balance Sheets

(Unaudited)		**June 30, 2011**		
	Note 19	**Canadian GAAP**	**Adj**	**IFRS**
ASSETS				
Current assets				
Cash and cash equivalents		$19,638	$ –	$19,638
Accounts receivable		349,482	–	349,482
Prepaid expenses and deposits		40,946	–	40,946
		410,066	–	410,066
Exploration and evaluation assets	a./h.	–	1,022,726	1,022,726
Property, plant and equipment	a.	6,309,381	(991,149)	5,318,232
Assets held for sale		5,352	–	5,352
		$6,724,799	**$31,577**	**$6,756,376**
LIABLITIES				
Current liabilities				
Accounts payable		$460,894	$ –	$460,894
Bank debt		2,550,000	–	2,550,000
		3,010,894	–	3,010,894
Asset retirement obligations	b.	431,533	96,722	528,255
		3,442,427	96,722	3,539,149
SHAREHOLDERS' EQUITY				
Share capital	g.	6,124,352	(75,000)	6,049,352
Contributed surplus	c.	439,174	–	439,174
Deficit	b./c./g.	(3,281,154)	9,855	(3,271,299)
		3,282,372	(65,145)	$3,217,227
		$6,724,799	**$(31,577)**	**$6,756,376**

19. Transition to IFRS (continued):

(Unaudited)		**December 31, 2010**			**July 1, 2010**		
	Note 19	**Canadian GAAP**	**Adj**	**IFRS**	**Canadian GAAP**	**Adj**	**IFRS**
ASSETS							
Current assets							
Cash and cash equivalents		$26,855	$ –	$26,855	$305,959	$ –	$305,959
Accounts receivable		596,512	–	596,512	528,832	–	528,832
Prepaid expenses and deposits		24,442	–	24,442	195,683	–	195,683
		647,809	–	647,809	1,030,474	–	1,030,474
Exploration and evaluation assets	a./h.	–	825,466	825,466	–	–	–
Property, plant and equipment	a.	6,781,592	(809,008)	5,972,584	5,103,516	–	5,103,516
Assets held for sale		5,189	–	5,189	5,108	–	5,108
		$7,434,590	**$ 16,458**	**$7,451,048**	**$6,139,098**	**$ –**	**$6,139,098**
LIABLITIES							
Current liabilities							
Accounts payable		$680,762	$ –	$680,762	$1,451,925	$ –	$1,451,925
Bank debt		2,550,000	–	2,550,000	–	–	–
		3,230,762	–	3,230,762	1,451,925	–	1,451,925
Shareholder loans		–	–	–	1,000,000	–	1,000,000
Asset retirement obligations	b.	415,551	101,718	517,269	399,568	110,671	510,239
		3,646,313	101,718	3,748,031	2,851,493	110,671	2,962,164
SHAREHOLDERS' EQUITY							
Share capital	g.	6,124,352	(75,000)	6,049,352	4,516,166	(75,000)	4,441,166
Performance rights		–	–	238,364	853,937	–	853,937
Contributed surplus	c.	439,174	–	439,174	427,706	–	427,706
Deficit	b./c./g.	(2,775,249)	(10,260)	(2,785,509)	(2,510,204)	(35,671)	(2,545,875)
		3,788,277	(85,260)	3,703,017	3,287,605	(110,671)	3,176,934
		$7,434,590	**$16,458**	**$7,451,048**	**$6,139,098**	**$ –**	**$6,139,098**

19. Transition to IFRS (continued):

Reconciliation of the Consolidated Statement of Comprehensive Loss

(Unaudited)		**June 30, 2011**			**December 31, 2010**		
	Note 19	**Canadian GAAP**	**Adj**	**IFRS**	**Canadian GAAP**	**Adj**	**IFRS**
Revenue							
Oil and natural gas revenue		$3,477,861	$ –	$3,477,861	$1,821,806	$ –	$1,821,806
Royalties		(436,332)	–	(436,332)	(169,663)	–	(169,663)
Other revenue		5,079	–	5,079	331	–	331
		3,046,608	–	3,046,608	1,652,474	–	1,652,474
Expenses							
Depletion and accretion	b.	1,281,662	(1,281,662)	–	667,619	(667,619)	–
Depletion		–	1,217,818	1,217,818	–	630,914	630,914
Impairment of property, plant and equipment		–	–	–	–	5,841	5,841
Field operating costs	b.	1,113,465	6,866	1,120,331	502,374	–	502,374
General and administrative		726,123	–	726,123	433,191	–	433,191
Interest expense		123,652	–	123,652	50,889	–	50,889
Professional fees		557,743	–	557,743	248,370	–	248,370
Stock based compensation	c.	11,468	–	11,468	11,468	–	11,468
Asset retirement obligation accretion	b.	–	11,452	11,452	–	5,452	5,452
		3,814,113	(45,526)	3,768,587	1,913,911	(25,412)	1,888,499
Income (loss) for continuing operations		(767,505)	45,426	(721,979)	(261,437)	(25,412)	(236,025)
Loss from discontinued operations		(3,445)	–	(3,445)	(3,608)	–	(3,608)
Comprehensive income (loss)		**$(770,950)**	**$45,426**	**$(725,424)**	**$(265,045)**	**$(25,412)**	**$(239,633)**

Reconciliation of the consolidated statement of changes in equity

	Note 18	**Share Capital**	**Performance rights**	**Contributed surplus**	**Deficit**	**Total Equity**
July 1, 2010 under GAAP		$4,516,166	$853,937	$427,706	$(2,510,204)	$3,287,605
IFRS adjustment:	g.	(75,000)	–	–	(35,671)	(110,671)
As at July 1, 2010		**$4,441,166**	**$853,937**	**$427,706**	**$(2,545,875)**	**$3,176,934**
December 31, 2010 under GAAP		$6,124,352	$ –	$439,174	$(2,775,249)	$3,788,277
IFRS adjustment:	b./c./g.	(75,000)	–	–	(10,260)	(85,260)
As at December 31, 2010		**$6,049,352**	**$ –**	**$439,174**	**$(2,785,509)**	**$3,703,017**
June 30, 2011 under GAAP		$6,124,352	$ –	$439,174	$(3,281,154)	$3,282,372
IFRS adjustment:	b./c./g.	(75,000)	–	–	9,855	(65,145)
As at June 30, 2011		**$6,049,352**	**$ –**	**$439,174**	**$(3,271,299)**	**$3,217,227**

Reconciliation of the consolidated statement of cash flows

The transition from Canadian GAAP to IFRS has not significant impact on the cash flows generated by the Corporation.

19. Transition to IFRS (continued):

The effect of the Corporation's transition to IFRS, described in note 2, is summarized below:

Transition elections and adjustments

The Corporation has applied the following transition exceptions to full retrospective application of IFRS as described below:

a.) Deemed cost of property, plant and equipment

In accordance with IFRS transitional provisions, the Corporation elected to use the deemed cost of property, plant and equipment for its exploration and production assets, which allows the Corporation to measure its exploration and evaluation assets at the amounts capitalized under Canadian GAAP at the date of transition to IFRS. Additionally, under the transitional provision, the Corporation elected to allocate the carrying value of property, plant and equipment in the development or production phases under Canadian GAAP to IFRS applicable assets pro rata using reserve values as at July 1, 2011, subject to impairment tests. The impairment tests compared the carrying value of the assets to their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell or value in use. No impairment was required at the transition date to IFRS.

b.) Asset retirement obligations

In accordance with IFRS transitional provisions for assets described in (a) above, the Corporation re-measured the liability associated with asset retirement obligation activities at the date of transition, resulting in an increase in asset retirement obligations of $110,671. At July 1, 2011, deficit was increased by $110,671.

The difference between Canadian GAAP and IFRS asset retirement obligations related primarily to discount rates.

As at June 30, 2011, an additional liability of $8,977 was recognized in property, plant and equipment. For the year ended June 30, 2011, net loss decreased by $4,972, and for the six months ended December 31, 2010, net loss decreased by $5,455, to reflect the impact of the change in accretion charges. Under IFRS accretion charges are no longer classified with depletion, but instead are included as finance costs.

c.) Share-based compensation

The Corporation elected under IFRS 1 not to reassess any stock based compensation that was fully vested as of the date of transition.

The difference between Canadian GAAP and IFRS stock based compensation relates primarily to graded vesting, where each vesting period is treated as a separate issuance and the inclusion of a forfeiture rate in the Black Sholes calculation.

d.) Foreign exchange

The Corporation elected under IFRS 1 to convert the balance sheet into a presentation currency using the exchange rates at the date of transition to IFRS and deem the cumulative translation differences for the foreign operations to be zero at the date of transition.

e.) Leases

The Corporation elected under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 for contracts that were assessed under Canadian GAAP prior to the transition date.

f.) Borrowing costs

Under Canadian GAAP the Corporation was not required to capitalize all borrowing costs in respect of constructed assets. At the date of transition, the Corporation elected to capitalize borrowing costs in respect to all qualifying assets effective July 1, 2011.

19. Transition to IFRS (continued):

The Corporation has recorded the following transition adjustments upon adoption of IFRS:

g.) 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 recorded an decrease in share capital of $75,000 with a subsequent decrease in deficit as a result of re-allocating the tax consequences of the flow through shares issued prior to the transition date.

h.) Exploration and evaluation assets

Under IFRS 6, the Corporation has accessed the classification of activities designated as developmental or exploratory which then determines the accounting treatment of the costs incurred. For capitalized costs associated with exploratory activities, the Corporation has presented separately on the balance sheet classified as “Exploration and evaluation assets”. Costs totaling $Nil as at July 1, 2010, $825,466 as at December 31, 2010 and $1,022,726 as at June 30, 2011 were reclassified from property, plant and equipment to exploration and evaluation assets.

20. Commitments

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.

21. Subsequent events:

On December 7, 2011, the Corporation announced that David A. Bryson has joined as President and a Director of the Corporation. Mr. Bryson will be responsible for leading the Corporation's growth strategy, particularly the Corporation's planned acquisition of United States oil and gas properties.

Bryson has agreed to complete a private placement in the amount of $357,500 through a subscription for 6,500,000 common shares of the Corporation. The private placement is subject to TSX Venture Exchange acceptance and the common shares will be subject to a statutory hold period of four months plus one day from the date of issuance. The Corporation expects the approval from the TSX Venture in March, 2012.