Condensed Consolidated Financial Statements of

BLACKHAWK RESOURCE CORP.

Periods ended March 31, 2012 and 2011

BLACKHAWK RESOURCE CORP.

May 29, 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 have not been reviewed and are unaudited.

Signed *"David Antony"*
David Antony, CEO

Signed *"Charidy Lazorko"*
Charidy Lazorko, CFO

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Statement of Financial Position
(Unaudited)

	March 31, 2012	June 30, 2011 (note 18)	July 1, 2010 (note 18)
Assets			
Current assets:			
Cash and cash equivalents	$ 5,504	$ 19,638	$ 305,959
Trade and other receivables (note 16(a))	203,958	349,482	528,832
Prepaid expenses and deposits	23,385	40,946	195,683
	232,847	410,066	1,030,474
Exploration and evaluation assets (note 7)	–	1,022,726	–
Property, plant and equipment (note 8)	5,304,346	5,318,232	5,103,516
Assets held for sale (note 6)	–	5,352	5,108
	$ 5,537,193	**$ 6,756,376**	**$ 6,139,098**
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables (note 16(b))	$ 150,335	$ 460,894	$ 1,451,925
Bank debt (note 9)	1,900,000	2,550,000	–
	2,050,335	3,010,894	1,451,925
Shareholder loans (note 10)	–	–	1,000,000
Other liabilities (note 18)	–	–	205,882
Decommissioning liabilities (note 11)	567,275	528,255	510,239
	2,617,610	3,539,149	3,168,046
Shareholders' equity			
Share capital (note 12)	6,405,065	6,049,352	4,441,166
Performance rights (note 12(d))	–	–	853,937
Contributed surplus (note 13)	659,764	439,174	427,706
Deficit	(4,145,246)	(3,271,299)	(2,751,757)
	2,919,583	3,217,227	2,971,052
Basis of presentation and going concern (note 2)			
Commitments (note 19)			
Subsequent events (note 19)			
	$ 5,537,193	**$ 6,756,376**	**$ 6,193,098**

See accompanying notes to condensed consolidated financial statements.

Approved for issuance by the Board of Directors on May 29, 2012

Signed *"David Antony"*
David Antony, Director

Signed *"David Bryson"*
David Bryson, Director

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Statements of Comprehensive income (loss)
for the three and nine month period ended March 31, 2012 and 2011
(Unaudited)

	3 months		9 months	
	2012	**2011**	**2012**	**2011**
Revenue				
Oil and natural gas revenue	$ 721,959	$ 747,888	$ 1,958,186	$ 2,569,694
Less: royalties	(243,762)	(49,048)	(574,296)	(218,711)
Interest and other revenue (note 8)	1,893	–	264,085	331
	480,090	698,840	1,647,975	2,351,314
Expenses				
Depletion	278,994	248,919	780,883	879,833
Write down of property, plant and equipment	–	–	427,580	–
Field operating expenses	158,673	399,294	557,301	907,509
General and administrative	166,667	180,997	376,341	614,188
Professional fees	25,448	91,171	60,239	339,541
Stock based compensation	92,484	–	220,590	11,468
Finance cost (note 11)	2,825	2,981	8,353	8,433
Interest and bank charges	18,775	36,523	85,282	87,412
	743,866	959,885	2,516,569	2,848,384
Loss from continued operations	(263,776)	(261,045)	(868,594)	(497,070)
Deferred tax recovery (note 18)	–	–	–	205,882
Discontinued operations (note 6)	1	(25)	(5,353)	(3,633)
Net comprehensive loss	**$ (263,775)**	**$ (261,070)**	**$ (873,947)**	**$ (294,821)**
Loss per share (note 14):				
Basic	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)
Diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)

See accompanying notes to condensed consolidated financial statements.

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Statements of Changes in Equity
(Unaudited)

	March 31, 2012	June 30, 2011	March 31, 2011
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
Issued pursuant to private placement	357,500	–	–
Share issue costs	(1,787)		
Balance, end of period	6,405,065	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	220,590	11,468	11,468
Balance, end of period	659,764	439,174	439,174
Deficit			
Balance, beginning of period	(3,271,299)	(2,751,757)	(2,751,757)
Net loss (note 18)	(873,947)	(519,542)	(294,821)
Balance, end of period	(4,145,246)	(3,271,299)	(3,046,578)
Shareholders' equity	**$ 2,919,583**	**$ 3,217,277**	**$ 3,441,948**

See accompanying notes to condensed consolidated financial statements.

BLACKHAWK RESOURCE CORP.

Condensed Consolidated Statements of Cash Flows for the three and nine month period ended March 31, 2012 and 2011
(Unaudited)

	3 Month		9 Month	
	2012	**2011**	**2012**	**2011**
Cash provided by (used in):				
Operations:				
Loss from operations	$ (263,776)	$ (261,045)	$ (868,594)	$ (497,070)
Items not affecting cash:				
Depletion	278,994	248,919	780,883	879,833
Write down of property, plant and equipment	–	–	427,580	–
Stock based compensation	92,484	–	220,590	11,468
Finance cost	2,825	2,981	8,353	8,433
	110,527	(9,145)	568,812	402,664
Change in non-cash operating working capital:				
Decrease (increase) in trade and other receivables	73,612	64,432	145,524	(3,248)
Decrease (increase) in prepaid expenses and deposits	4,303	(6,738)	17,561	164,503
Increase (decrease) in trade and other payables	(38,590)	(280,503)	(310,559)	(1,051,666)
	149,852	(231,954)	421,338	(487,747)
Discontinued operations:				
Loss from discontinued operations	1	(25)	(5,353)	(3,633)
	149,853	(231,979)	415,985	(491,380)
Financing:				
Share subscription proceeds received in advance	(357,500)	–	–	–
Bank debt	(125,000)	225,000	(650,000)	2,775,000
Shareholder loans	–	–	–	(1,000,000)
Proceeds received from private placement	357,500	–	357,500	
Share issue costs	(1,787)	–	(1,787)	
	(126,787)	225,000	(292,500)	1,775,000
Investments:				
Property, plant and equipment	(27,827)	(6,649)	(137,619)	(1,576,352)
	(27,878)	(6,649)	(137,619)	(1,576,352)
Net change in cash and cash equivalents	(4,761)	13,628	(14,134)	(292,732)
Cash and cash equivalents, beginning of period	10,265	26,855	19,638	305,959
Cash and cash equivalents, end of period	**$ 5,504**	**$ 13,227**	**$ 5,504**	**$ 13,227**
Supplemental cash flow information:				
Interest paid	$ 18,775	$ 36,523	$ 85,282	$ 87,412

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 condensed interim consolidated financial statements for the three and nine months ended March 31, 2012 have been prepared in accordance with IAS 34 - Interim Financial Reporting and are in accordance with IFRS 1 - First-time Adoption of International Financial Reporting Standards ("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 from operating activities due to decreased revenues and increased operating costs in the past quarter, and has an accumulated deficit at March 31, 2012. 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 March 31, 2012 condensed interim consolidated financial statements are the Corporation's third quarter financial statements prepared under IFRS, with a transition date to IFRS of July 1, 2011. Consequently the comparative figures for 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 18. These condensed interim consolidated financial statements do not include all necessary annual disclosures in accordance with IRFS. 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 18.

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 18 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 comprehensive loss.

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

Development 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 18.

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 comprehensive loss.

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 comprehensive loss. 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.) Decommissioning liabilities

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 risk free 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 property, plant and equipment 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 decommissioning liabilities is capitalized, whilst the charge arising from the accretion of the discount applied to the decommissioning liabilities 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 comprehensive loss 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; available for sale financial assets; 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.

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 and amortized to statement of loss using the effective interest method.

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, 2015, 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 condensed interim 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.) Decommissioning liabilities

The calculation of decommissioning liabilities include 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 assets 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). 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:

Discontinued operations comprised of the following for the period ended March 31, 2012 and 2011:

	March 31, 2012	**March 31, 2011**
Expenses		
General and administrative	$5,010	$ –
Professional fees	–	3,689
	5,010	3,689
Loss before other items	(5,010)	(3,689)
Other items		
Foreign exchange gain (loss)	(343)	56
Loss from discontinued operations	$(5,353)	$(3,633)

7. Exploration and evaluation assets:

A reconciliation of the carrying amount of exploration and evaluation assets as at March 31, 2012, 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 decommissioning liabilities	–
Impairment	–
At June 30, 2011	1,022,726
Additions	(4,657)
Change in estimates of decommissioning liabilities	9,481
Transfer to Property, plant and equipment	(1,027,580)
At March 31, 2012	**$ –**

8. Property, plant and equipment:

	Provost Area, Alberta	Greencourt Area, Alberta	Edson Area, Alberta	Queenstown Area, Alberta	Wood River Area, Alberta	Total
Cost						
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
June 30, 2011	9,018,977	79,419	–	317,423	427,698	9,843,517
Additions	138,722	326	22,484	152	5,313	166,997
Transfer in from exploration and evaluation	–	–	1,027,580	–	–	1,027,580
March 31, 2012	**$9,157,699**	**$79,745**	**$1,050,064**	**$317,575**	**$433,011**	**$11,038,094**
Accumulated depletion						
July 1, 2010	$(3,016,457)	$(24,473)	$ –	$(114,075)	$(152,462)	$(3,307,467)
Expense	(1,091,992)	(32,790)	–	(31,499)	(61,537)	(1,217,818)
June 30, 2011	(4,108,449)	(57,263)	–	(145,574)	(213,999)	(4,525,285)
Expense	(705,205)	(14,665)	–	(16,209)	(44,804)	(780,883)
Impairment	–	–	(427,580)	–	–	(427,580)
March 31, 2012	**$(4,813,654)**	**$(71,928)**	**$(427,580)**	**$(161,783)**	**$(258,803)**	**$(5,733,748)**
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
March 31, 2012	**$4,344,045**	**$7,817**	**$622,484**	**$155,792**	**$174,208**	**$5,304,346**

On July 27, 2011, the Corporation signed a purchase and sale agreement related to certain of its Provost properties. 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.

On May 8, 2012, the Corporation sold one of its Provost properties (note 19).

9. Bank debt:

The Corporation has a demand operating facility of $2.1 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 June, 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.

9. Bank debt:

As of March 31, 2012, the Corporation was in compliance with all the covenants of the facility and $1,900,000 (June 30, 2011 - $2,550,000) had been drawn against it. Subsequent to March 31, 2012, the outstanding amount was paid, and demand operating facility was reduced to $250,000 (note 19).

10. 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.

11. Decommissioning liabilities:

	March 31, 2012	June 30, 2011	July 1, 2010
Balance, beginning of period	$528,255	$510,239	$510,239
Additions	9,335	–	–
Finance cost	8,353	11,452	–
Revision of estimates	21,332	6,564	–
Balance, end of period	**$567,275**	**$528,255**	**$510,239**

The Corporation's decommissioning liabilities 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 decommissioning liabilities as at March 31, 2012 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 1.50% was used to calculate the present value of the estimated future decommissioning liabilities at March 31, 2012 (June 30, 2011 – 2.10%, July 1, 2010 – 2.33%).

12. 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
Issued pursuant to private placement	6,500,000	357,500
Share issue costs	–	(1,787)
Balance, March 31, 2012	**66,539,144**	**$6,405,065**

12. Share capital (continued):

On March 7, 2012, the Corporation completed a private placement in the amount of $357,500 through a subscription for 6,500,000 common shares at $0.055 per common share. Share issuance costs of $1,787 were also incurred.

(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 6,653,914 (June 30, 2011 – 6,003,914) common shares. The details of this plan are as follows:

	March 31, 2012		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	5,000,000	$0.10	–	–
Expired	–	–	(1,600,000)	$0.15
Options outstanding, end of period	**6,485,000**	**$0.11**	**1,485,000**	**$0.13**
Exercisable, end of period	**3,151,667**	**$0.11**	**1,485,000**	**$0.13**

The following table summarizes information about stock options outstanding at March 31, 2012:

Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price
$0.10	575,000	1.90 years	$0.10
$0.15	185,000	2.10 years	$0.15
$0.15	725,000	2.42 years	$0.15
$0.10	4,400,000	4.68 years	$0.10
$0.10	600,000	4.94 years	$0.10
	6,485,000	**4.13 years**	**$0.11**

12. Share capital (continued):

The following table summarizes information about stock options outstanding and exercisable at March 31, 2012:

Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price
$0.10	575,000	1.90 years	$0.10
$0.15	185,000	2.10 years	$0.15
$0.15	725,000	2.42 years	$0.15
$0.10	1,466,667	4.68 years	$0.10
$0.10	200,000	4.94 years	$0.10
	3,151,667	**3.52 years**	**$0.11**

(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.

13. Contributed surplus:

The following table reconciles the Corporation's contributed surplus:

	March 31, 2012	**June 30, 2011**	**July 1, 2010**
Balance, beginning of period	$439,174	$427,706	$427,706
Stock based compensation	220,590	11,468	–
Balance, end of period	**$659,764**	**$439,174**	**$427,706**

14. 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:

Nine months ended March 31,	2012	2011
Weighted average shares outstanding, basic	60,606,417	55,877,282
Effect of stock options	–	145,737
Weighted average shares outstanding, diluted	60,606,417	56,023,019

Three months ended March 31,	2012	2011
Weighted average shares outstanding, basic	61,753,430	60,039,144
Effect of stock options	–	111,357
Weighted average shares outstanding, diluted	61,753,430	60,150,501

In calculating diluted loss per common share for the three and nine month periods ended March 31, 2012 and 2011, the Corporation excluded 6,485,000 (2011 – 1,510,000) stock options as the exercise price is greater than the average market price of the common shares for the period.

15. Related party transactions:

For the nine month period ended March 31, 2012 the Corporation incurred consulting fees of $133,309 (2011 – $78,000) 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 March 31, 2012 $47,809 remained outstanding (2011 – $Nil).

During the six month period ended March 31, 2012, the Corporation incurred legal costs of $39,952 (2011 - $22,011) 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, $6,726 were included in accounts payable at March 31, 2012 (2011 - $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.

16. Financial instruments:

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

March 31, 2012				
Asset (liability)	**Fair value through profit or loss**	**Loans and receivables at amortized cost**	**Financial liabilities at amortized cost**	**Total**
Cash and cash equivalents	$ –	$5,504	$ –	$5,504
Trade and other receivables	–	203,958	–	203,958
Trade and other payables	–	–	(150,335)	(150,335)
Bank debt	–	–	(1,900,000)	(1,900,000)
	$ –	**$209,462**	**$(2,050,335)**	**$(1,840,873)**

16. Financial instruments (continued):

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
Trade and other receivables	–	349,482	–	349,482
Trade and other payables	–	–	(460,894)	(460,894))
Bank debt			(2,550,000)	(2,550,000)
	$ –	**$369,120**	**$(3,010,894)**	**$(2,641,774)**

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
Trade and other receivables	–	528,832	–	528,832
Trade and other payables	–	–	(1,451,925)	(1,451,925)
Shareholder loans	–	–	(1,000,000)	(1,000,000)
	$ –	**$834,791**	**$(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 trade and other receivables. At March 31, 2012, the Corporations trade and other receivables of $203,958 consisted of $144,361 due from petroleum marketers, $35,683 due from joint venture partners, and $23,914 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.

16. Financial instruments (continued):

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 March 31, 2012:

Financial Liabilities	< One Year	> One Year
Trade and other payables	$150,335	$ −
Bank debt	1,900,000	−
Total	**$2,050,335**	**$ −**

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 interest rates and commodity prices will affect the Corporation's comprehensive loss 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 $14,250 on the statement of loss.

- 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.

17. 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.

18. Transition to IFRS:

Reconciliations of the Consolidated Balance Sheets

(Unaudited)		**June 30, 2011**		
	Note 18	**Canadian GAAP**	**Adj**	**IFRS**
ASSETS				
Current assets				
Cash and cash equivalents		$19,638	$ –	$19,638
Trade and other receivables		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				
Trade and other payables		$460,894	$ –	$460,894
Bank debt		2,550,000	–	2,550,000
		3,010,894	–	3,010,894
Decommissioning liabilities	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**

18. Transition to IFRS (continued):

(Unaudited)		**March 31, 2011**			**July 1, 2010**		
	Note 18	**Canadian GAAP**	**Adj**	**IFRS**	**Canadian GAAP**	**Adj**	**IFRS**
ASSETS							
Current assets							
Cash and cash equivalents		$13,227	$ –	$13,227	$305,959	$ –	$305,959
Trade and other receivables		532,080	–	532,080	528,832	–	528,832
Prepaid expenses and deposits		31,180	–	31,180	195,683	–	195,683
		576,487	–	576,487	1,030,474	–	1,030,474
Exploration and evaluation assets	a./h.	–	903,616	903,616	–	–	–
Property, plant and equipment	a.	6,498,834	(847,297)	5,651,537	5,103,516	–	5,103,516
Assets held for sale		5,164	–	5,164	5,108	–	5,108
		$7,080,485	**$ 56,319**	**$7,136,804**	**$6,139,098**	**$ –**	**$6,139,098**
LIABLITIES							
Current liabilities							
Trade and other payables		$400,259	$ –	$400,259	$1,451,925	$ –	$1,451,925
Bank debt		2,775,000	–	2,775,000	–	–	–
		3,175,259	–	3,175,259	1,451,925	–	1,451,925
Shareholder loans		–	–	–	1,000,000	–	1,000,000
Other liabilities		–	–	–	–	205,882	205,882
Decommissioning liabilities	b.	423,542	96,055	519,597	399,568	110,671	510,239
		3,598,801	96,055	3,694,856	2,851,493	316,553	3,168,046
SHAREHOLDERS' EQUITY							
Share capital	g.	6,124,352	(75,000)	6,049,352	4,516,166	(75,000)	4,441,166
Performance rights		–	–	–	853,937	–	853,937
Contributed surplus	c.	439,174	–	439,174	427,706	–	427,706
Deficit	b./c./g.	(3,081,842)	35,264	(3,046,578)	(2,510,204)	(241,553)	(2,751,757)
		3,481,684	(39,736)	3,441,948	3,287,605	(316,553)	2,971,052
		$7,080,485	**$56,319**	**$7,136,804**	**$6,139,098**	**$ –**	**$6,139,098**

18. Transition to IFRS (continued):

Reconciliation of the Consolidated Statement of Comprehensive Loss

(Unaudited)		**June 30, 2011**			**March 31, 2011**		
	Note 18	**Canadian GAAP**	**Adj**	**IFRS**	**Canadian GAAP**	**Adj**	**IFRS**
Revenue							
Oil and natural gas revenue		$3,477,861	$ –	$3,477,861	$2,569,694	$ –	$2,569,694
Royalties		(436,332)	–	(436,332)	(218,711)	–	(218,711)
Other revenue		5,079	–	5,079	331	–	331
		3,046,608	–	3,046,608	2,351,314	–	2,351,314
Expenses							
Depletion and accretion	b.	1,281,662	(1,281,662)	–	965,108	(965,108)	–
Depletion		–	1,217,818	1,217,818	–	879,833	879,833
Impairment of property, plant and equipment		–	–	–	–	–	–
Field operating costs	b.	1,113,465	6,866	1,120,331	901,602	5,907	907,509
General and administrative		726,123	–	726,123	614,188	–	614,188
Interest expense		123,652	–	123,652	87,412	–	87,412
Professional fees		557,743	–	557,743	339,541	–	339,541
Stock based compensation	c.	11,468	–	11,468	11,468	–	11,468
Finance cost	b.	–	11,452	11,452	–	8,433	8,433
		3,814,113	(45,526)	3,768,587	2,919,319	(70,885)	2,848,384
Income (loss) for continuing operations		(767,505)	45,426	(721,979)	(568,005)	(70,885)	(497,070)
Deferred tax recovery	g.	–	205,882	205,882	–	205,882	205,882
Loss from discontinued operations		(3,445)	–	(3,445)	(3,633)	–	(3,633)
Comprehensive income (loss)		**$(770,950)**	**$251,308**	**$(519,542)**	**$(571,638)**	**$134,997**	**$(294,821)**

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)	–	–	(241,553)	(316,553)
As at July 1, 2010		**$4,441,166**	**$853,937**	**$427,706**	**$(2,751,757)**	**$2,971,052**
March 31, 2011 under GAAP		$6,124,352	$ –	$439,174	$(3,081,842)	$3,481,684
IFRS adjustment:	b./c./g.	(75,000)	–	–	35,264	(39,736)
As at March 31, 2011		**$6,049,352**	**$ –**	**$439,174**	**$(3,046,578)**	**$3,441,948**
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.

18. 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 exemptions to full retrospective application of IFRS as described below:

a.) Deemed cost of property, plant and equipment

In accordance with IFRS 1 transitional provisions, the Corporation elected to use the deemed cost of property, plant and equipment for its exploration and evaluation 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 historical cost 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, 2010, 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.) Decommissioning liabilities

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, 2010, 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, 2010, net loss decreased by $4,972, and for the nine months ended March 31, 2011, net loss increased by $442, 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 statement of financial position 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. This election had no effect on the Corporations financial statements.

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, 2010.

18. 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 a 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. At the transition date, flow through expenditures of $700,000 was still outstanding resulting in $205,882 being accrued as other liabilities on the statement of financial position.

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 statement of financial position classified as "Exploration and evaluation assets". Costs totaling $Nil as at July 1, 2010, $903,616 as at March 31, 2011 and $1,022,726 as at June 30, 2011 were reclassified from property, plant and equipment to exploration and evaluation assets.

i.) Business combinations

Under IFRS 1, the Corporation has elected not to restate business combinations that occurred before July 1, 2010.

19. Subsequent events:

On April 5, 2012, the Corporation completed a consolidation of its common shares on the basis of one (1) new post-consolidation common share for every three (3) pre-consolidated common share. The common shares outstanding were reduced to 22,179,706, and stock options outstanding to 2,161,667 with an weighted average exercise price of $0.33.

On April 24, 2012, the Corporation signed a letter agreement to sell one of its Provost properties. The property held one producing well for gross proceeds of $6,000,000. The sale closed on May 8, 2012.

With the closing of the Provost property sale, the Corporations demand operating facility was paid in full, and subsequently reduced to $250,000.