BLACKHAWK RESOURCE CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FORM 51-102F1

FOR THE PERIOD ENDED MARCH 31, 2012

May 29, 2012

Management's Discussion and Analysis should be read in conjunction with the interim condensed consolidated financial statements for the period ended March 31, 2012. The condensed consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting.

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

CHANGE OVER TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Prior to July 1, 2011, Blackhawk Resource Corp. (the "Corporation") prepared its financial statements under Canadian Generally Accepted Accounting Principles ("GAAP"). Effective July 1, 2011, the Corporation is required to adopt International Financial Reporting Standards ("IFRS"). The Corporation's financial statements for the three and nine month period ended March 31, 2012, including comparative amounts, have been prepared on an IFRS basis. The date of the transition for the Corporation is July 1, 2010, being the start date of the earliest period of comparative information.

In order to explain how the Corporation's reported performance, financial position and accounting policies are affected by the changeover to IFRS, information previously reported under Canadian GAAP has been restated under IFRS with reconciliations provided in the notes to the condensed consolidated financial statements at March 31, 2012. The restated information and new accounting policies information are set out in the condensed consolidated financial statements as at and for the period ending March 31, 2012.

1. OVERALL PERFORMANCE

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

The Corporation averaged production of 113 BOE/D during the three month period ended March 31, 2012 (2011 – 133 BOE/D), split 83% oil and 17% gas (2011- 85% oil and 15% gas). The reduction in the production in the quarter was due to one well in the Bodo area still shut in awaiting regulatory approval of continuation of its lease. The Corporation's current production is 50 BOE/D. Current production has reduced due to the sale of one of the Bodo properties in the provost area.

Petroleum and natural gas properties

The Bodo property is located in and around Township 38, Range 1 West of the Fourth Meridian. Production from the Bodo area is primarily heavy oil from the McLaren Formation. Currently there are three 100% owned producing oil wells and two producing gas wells (owned 100% and 6.25%).

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

Blackhawk also derives production from the following non-operated properties: Wood River, four producing natural gas wells with an average working interest of 37.5%; Queenstown, two producing oil and gas wells with a working interest of 30%; Greencourt, one producing oil well with a working interest of 21%; and Edson Cardium horizontal well with a working interest of 22% BPO and 14.67% APO.

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

Corporate and Finance

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.

2. SELECTED QUARTERLY INFORMATION

	Three month period ended			
	Mar 31, 2012	**Dec 31, 2011**	**Sept 30, 2011**	**Jun 30, 2011**
Net revenue	$480,090	$829,434	$338,451	$695,294
Net income (loss)	(263,775)	(296,232)	(313,940)	(199,312)
Basic and diluted net income (loss) per share	(0.00)	(0.00)	(0.01)	(0.01)

	Three month period ended			
	Mar 31, 2011	**Dec 31, 2010**	**Sept 30, 2010**	**Jun 30, 2010**
Net sales/total revenues	$698,840	$887,855	$764,619	$484,351
Net income (loss)	(261,070)	(174,021)	140,678	487,088
Basic and diluted net income (loss) per share	(0.01)	(0.01)	0.00	0.01

The above noted financial data should be read in conjunction with the condensed consolidation financial statements for the period ended March 31, 2012.

3. RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD

Oil and natural gas sales revenue and pricing

Revenue	***Three months ended March 31, 2012***	***Three months ended March 31, 2011***
Oil / NGLs	$695,197	$702,529
Natural Gas	26,762	45,359
Total Revenue	$721,959	$747,888
Royalties	(243,762)	(49,048)
Revenue, net of royalties	**$478,197**	**$698,840**

Product Prices-Sales	***March 31, 2012***	***March 31, 2011***
Oil / NGLs ($/bbl)	$81.07	$69.39
Natural Gas ($/mcf)	$2.51	4.12

Product Volumes	*Three months ended March 31, 2012*	*Average BOE/D for the three months ended March 31, 2012*
Oil / NGLs	8,575 bbl	94 BOE/d
Natural Gas	10,641 mcf	19 BOE/d
Total	10,349 BOE	113 BOE/d

Product Volumes	*Three months ended March 31, 2011*	*Average BOE/D for the three months ended March 31, 2011*
Oil / NGLs	10,124 bbl	113 BOE/d
Natural Gas	10,999 mcf	20 BOE/d
Total	11,957 BOE	133 BOE/d

			March 31, 2012
Netbacks	**Oil & NGL per bbl**	**Gas per mcf**	**Total per BOE**
Revenue	$81.07	$2.51	$69.76
Royalties	28.33	0.08	23.55
Operating Expenses	17.34	0.94	15.33
Operating Netback	$35.40	$1.49	$30.88

			March 31, 2011
Netbacks	**Oil & NGL per bbl**	**Gas per mcf**	**Total per BOE**
Revenue	$69.39	$4.12	$62.52
Royalties	4.63	.20	4.10
Operating Expenses	32.72	6.18	33.38
Operating Netback	$32.04	$(2.26)	$25.04

The Corporation earned oil and gas revenue for the three month period ending March 31, 2012 of $721,959 compared to $747,888 for the three month period ended March 31, 2011.

The Corporation paid a total of $243,762 ($23.55 per BOE) in royalties in the three month period ended March 31, 2012, compared with $49,048 ($4.10 per BOE) for the three month period ended March 31, 2011. The royalty rate increased significantly in the last quarter of the prior year, as production from the Corporations wells were no longer eligible for the initial low rates past the first year of production.

Operating expenses for the three month period ended March 31, 2012 were $158,673 or $15.33 per BOE of production compared to $33.38 per BOE for the same period in the prior year. The reduction in operating costs was due to significant workover expenses incurred in the prior periods.

General and administrative

General and administrative expenses for the three month period ended March 31, 2012 were $166,667 compared with $180,997 for the three month period ended March 31, 2011. The expense is mainly composed of consulting fees totaling $78,860, office rental fees of $10,600, and computer software and rentals of $6,583. The remaining expense is composed of other general office expenses.

Discontinued operations

During the year ended August 31, 2009, the Corporation changed its business strategy to focus on oil and gas exploration and development in Western Canada. For the three month period ended March 31, 2012, the Corporation incurred income, net of income taxes from discontinued operations of $1 (March 31, 2011 net loss – $25).

Net loss

The net loss of $263,775 ($0.00 per share) for the period was mainly due to depletion of $278,994 and stock based compensation of $92,484. In addition there was an increase in royalties resulting from an increase in the applied rates on some of the Corporation's properties. This compares to the net loss of $261,070 ($0.00 per share) for the three month period ended March 31, 2011.

Cash flow from continuing operations

Cash flow from continuing operations was $149,852, compared with a negative $231,954 in the three month period ended March 31, 2011. The positive cash flow is due to a strengthening in the commodity prices, decreased workover expenses including in operating costs from the Corporation's oil and gas operations.

6. LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2012, the Corporation had working capital deficit of $1,817,488 which compares to working capital deficit of $2,600,828 at June 30, 2011. The increase in working capital is the result of the Corporation's revenues returning after several periods of workover expenditures.

On April 24, 2012, the Corporation signed a letter agreement to sell one of its Bodo properties in the provost area, which held one producing well for gross proceeds of $6,000,000. The sale closed on May 8, 2012. Subsequent to the sale, the Corporation has approximately $4,380,000 in working capital and current production of approximately 50 BOE/D.

7. TRANSACTIONS WITH RELATED PARTIES

For the three month period ended March 31, 2012 the Corporation incurred consulting fees of $65,840 (2011 – $28,500) 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 period ended March 31, 2012, the Corporation incurred legal costs of $16,986 (2011 - $13,140) 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.

8. 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.

9. OFF-BALANCE SHEET TRANSACTIONS

As at May 29, 2012, the Corporation does not have any off-balance sheet arrangements.

10. ACCOUNTING POLICIES

The MD&A and condensed interim consolidated financial statements have been prepared on a historical cost basis with some exceptions in accordance with IAS 34, as detailed in the accounting policies set out in note 3 of the condensed interim consolidated financial statements. These policies have been applied consistently for all periods presented in the 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 in the condensed interim consolidated financial statements for details of the transition to IFRS.

11. FUTURE ACCOUNTING POLICES

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.

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.

12. CRITICAL ACCOUNTING ESTIMATES

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.

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.

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.

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.

13. FINANCIAL INSTRUMENTS

The Corporation's financial instruments as at March 31, 2012 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and bank debt. The Corporation records its financial instruments at their carrying amounts which approximates fair value, unless otherwise disclosed in the consolidated financial statements. The carrying amounts approximate fair values due to the short term maturities of these financial instruments.

14. DISCLOSURE OF OUTSTANDING SHARE DATA (as at May 29, 2012)

Authorized and Issued Share Capital

Class	Par Value	Authorized	Issued
Common	Nil	Unlimited	22,179,706
Preferred	Nil	Unlimited	Nil

Description of Options and Contingent Performance Rights Outstanding

Security Type	Number	Exercise Price	Expiry Date	Recorded Value
Options	191,667	$0.30	February 23, 2014	N/A
Options	61,667	$0.45	May 6, 2014	N/A
Options	241,667	$0.45	September 1, 2014	N/A
Options	1,466,667	$0.30	December 7, 2016	N/A
Options	200,000	$0.30	March 9, 2012	N/A

15. FORWARD LOOKING STATEMENTS

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

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

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

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

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

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

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

The forward-looking statements or information contained in this Management’s Discussion and Analysis are made as of the May 29, 2012.

16. RISK FACTORS

Overview

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

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

Oil and Gas Exploration and Development - General

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

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

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

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

Uninsurable Risks

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

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

Industry Risks

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

Prices and Markets for Crude Oil, Condensate and Natural Gas

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

Alternatives to/Changing Demand for Petroleum Products

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

Competition

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

Governmental Regulation

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

Permits and Licenses

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

Environmental Regulation

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

Legal Proceedings

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

Price Volatility of Publicly Traded Securities

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

Dilution and Future Sales of Common Shares

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

No Assurance of Title

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

Dependence on Key Personnel

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

Reserve Replacement

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

Reliance on Strategic Relationships

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

Conflicts of Interest

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

17. DEFINITIONS

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

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

Other

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

APO after payout

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

BOE/D barrel of oil equivalent per day

BPO before payout

Mboe 1,000 barrels of oil equivalent

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

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

18. ADDITIONAL INFORMATION

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