Consolidated Financial Statements of

BLACKHAWK RESOURCE CORP.

Years ended June 30, 2013 and 2012

BLACKHAWK RESOURCE CORP.

September 12, 2013

Management's Report to the Shareholders

Management is responsible for the reliability and integrity of these consolidated financial statements. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are presented in Canadian dollars.

The accompanying 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.

Signed *"David Antony"*
David Antony, CEO

Signed *"Charidy Lazorko"*
Charidy Lazorko, CFO

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Independent Auditor's Report

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To the Shareholders of Blackhawk Resource Corp.

We have audited the accompanying consolidated financial statements of Blackhawk Resource Corp., which comprise the consolidated statement of financial position as at June 30, 2013 and June 30, 2012, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

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opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Blackhawk Resource Corp. as at June 30, 2013 and June 30, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Canada
September 12, 2013

Grant Thornton LLP
Chartered Accountants

BLACKHAWK RESOURCE CORP.

Consolidated Statement of Financial Position

As at	June 30, 2013	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 3,136,429	$ 4,069,243
Trade and other receivables (notes 6 and 17(a))	279,498	150,673
Prepaid expenses and deposits	33,192	38,337
	3,449,119	4,258,252
Property, plant and equipment (note 8 and 9)	478,581	1,052,076
	$ 3,927,700	**$ 5,310,328**
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables (notes 17(b))	$ 341,337	$ 532,422
Decommissioning liabilities (note 10)	539,548	540,922
	880,885	1,073,344
Shareholders' equity		
Share capital (note 11)	6,405,065	6,405,065
Contributed surplus (note 12)	727,548	680,553
Deficit	(4,085,798)	(2,848,634)
	3,046,815	4,236,984
Contingencies (note 19)		
Subsequent events (note 20)		
	$ 3,927,700	**$ 5,310,328**

See accompanying notes to the consolidated financial statements.

Approved for issuance by the Board of Directors on September 12, 2013

Signed *"Raymond Antony"*

Raymond Antony, Director

Signed *"Michael Bowie"*

Michael Bowie, Director

BLACKHAWK RESOURCE CORP.

Consolidated Statements of Comprehensive income (loss)

Year ended June 30,	**2013**	**2012**
Revenue		
Oil and natural gas revenue	$ 685,229	$ 2,282,250
Less: royalties	(80,670)	(631,463)
Other revenue (note 6 and 9)	230,901	251,701
	835,460	1,902,488
Expenses		
Depletion (note 9)	507,633	1,481,591
Field operating expenses	524,152	684,610
Transportation expenses	20,718	71,400
Gain on sale of property, plant and equipment (note 9)	–	(4,054,140)
Impairment of property, plant and equipment (note 8 and 9)	55,498	2,020,774
General and administrative	304,818	725,390
Professional fees	147,601	186,297
Stock based compensation (note 11(c))	46,995	241,379
Finance costs (note 13)	15,209	117,169
Settlement of contingency (note 19)	450,000	–
	2,072,624	1,474,470
Income (loss) from continuing operations	(1,237,164)	428,018
Discontinued operations (note 7)	–	(5,353)
Net income (loss) and comprehensive income (loss)	**$ (1,237,164)**	**$ 422,665**
Income (loss) from continuing operations per share (note 14):		
Basic and diluted	$ (0.06)	$ 0.02
Income (loss) from discontinued operations per share (note 14):		
Basic and diluted	$ –	$ (0.00)
Net income (loss) and comprehensive income (loss) per share (note 14):		
Basic and diluted	$ (0.06)	$ 0.02

See accompanying notes to the consolidated financial statements.

BLACKHAWK RESOURCE CORP.

Consolidated Statements of Changes in Equity

As at		June 30, 2013		June 30, 2012
Share capital				
Balance, beginning of year	$	6,405,065	$	6,049,352
Issued pursuant to private placement		–		357,500
Share issue costs		–		(1,787)
Balance, end of year		6,405,065		6,405,065
Contributed surplus				
Balance, beginning of year		680,553		439,174
Stock based compensation (note 11(c))		46,995		241,379
Balance, end of year		727,548		680,553
Deficit				
Balance, beginning of year		(2,848,634)		(3,271,299)
Net income (loss)		(1,237,164)		422,665
Balance, end of year		(4,085,798)		(2,848,634)
Shareholders' equity	**$**	**3,046,815**	**$**	**4,236,984**

See accompanying notes to consolidated financial statements.

BLACKHAWK RESOURCE CORP.

Consolidated Statements of Cash Flows

Year ended June 30,	**2013**	**2012**
Cash provided by (used in):		
Operations:		
Net income (loss) from continuing operations	$ (1,237,164)	$ 428,018
Items not affecting cash:		
Depletion	507,633	1,481,591
Gain on sale of property, plant and equipment	–	(4,054,140)
Impairment of property, plant and equipment	55,498	2,020,774
Stock based compensation	46,995	241,379
Finance cost	10,555	11,047
	(616,483)	128,669
Change in non-cash operating working capital:		
Trade and other receivables	(128,826)	198,810
Prepaid expenses and deposits	5,145	2,609
Trade and other payables	(191,084)	71,528
	(931,248)	401,616
Discontinued operations:		
Loss from discontinued operations	–	(5,353)
	(931,248)	396,263
Financing:		
Bank debt	–	(2,550,000)
Proceeds received from private placement	–	357,500
Share issue costs	–	(1,787)
	–	(2,194,287)
Investments:		
Additions to property, plant and equipment	(1,566)	(149,165)
Sale of property, plant and equipment, net of costs	–	5,996,794
	(1,566)	5,847,629
Net change in cash and cash equivalents	(932,814)	4,049,605
Cash and cash equivalents, beginning of year	4,069,243	19,638
Cash and cash equivalents, end of year	**$ 3,136,429**	**$ 4,069,243**

See accompanying notes to 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:

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the consolidated financial statements are disclosed in note 5.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain non-current assets. Historical cost is generally based on the fair value of the consideration given in exchange for the assets recorded on the date of transaction. These consolidated financial statements have been prepared on a going concern basis.

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 and presentation currency.

3. Significant accounting policies:

These policies have been applied consistently for all periods presented in these consolidated financial statements.

a.) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries: Blackhawk Resource Operating Corp., and RMC Exploracao Petrolifera Ltda.

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

b.) Joint ventures

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.

A jointly controlled asset offers joint ownership by the venturers of the assets contributed to the joint venture, without the formation of a corporation, partnership or other entity.

Substantially all of the Corporation's activities are conducted jointly with others, and the consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

c.) 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 statement of financial position.

3. Significant accounting policies (continued):

d.) 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 the consolidated statement of comprehensive income (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”). 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.

e.) 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.

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.

Oil and natural gas properties within each CGU 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 the consolidated statement of comprehensive income (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 CGU 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 or CGU. 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 (“FVLCTS”) and its value in use (“VIU”). FVLCTS is determined to be the amount for which the asset could be sold in an arm’s length transaction.

3. Significant accounting policies (continued):

VIU is based upon the estimated before tax net present value of the Corporations proved plus probable reserves, as prepared by independent reserve evaluators. 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 or CGU 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 the consolidated statement of comprehensive income (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.

f.) Decommissioning liabilities

A provision is recognized 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.

g.) Foreign currency translation

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 the consolidated statement of comprehensive income (loss).

h.) Income taxes

The Corporation follows the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized based on the estimated tax effects of temporary differences in the carrying amount of assets and liabilities in the consolidated financial statements and their respective tax bases.

Deferred income tax assets and liabilities are calculated using the substantively enacted income tax rates that are expected to apply when the asset or liability is recovered. Deferred income tax assets or liabilities are not recognized when they arise on the initial recognition of an asset or liability in a transaction (other than in a business combination) that, at the time of the transaction, affects neither accounting nor taxable profit.

Deferred income tax assets for deductible temporary differences and tax loss carryforwards are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences or tax loss carryforwards can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date, and is reduced if it is no longer probable that sufficient future taxable profits will be available against which the temporary differences or tax loss carryforwards can be utilized.

Current income tax is calculated based on net earnings for the year, adjusted for items that are non-taxable or taxed in different periods, using income tax rates that are substantively enacted at each reporting date.

Income taxes are recognized in equity or other comprehensive income, consistent with the items to which they relate.

i.) 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.

3. Significant accounting policies (continued):

j.) 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 the statement of comprehensive income (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. Forfeitures are estimated through the vesting period based on past experience and future expectations, and adjusted upon actual vesting.

k.) 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 the statement of comprehensive income (loss). All other categories of financial instruments are measured at amortized cost using the effective interest method except for available for sale financial assets that are measured at fair value through other comprehensive income.

Cash and cash equivalents and trade and other receivables are classified as loans and receivables. Trade and other payables 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 the consolidated statement of comprehensive income (loss). Transaction costs in respect of other financial instruments are included in the initial measurement of the financial instrument and amortized to consolidated statement of comprehensive income (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 the consolidated statement of comprehensive income (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.

l.) Comprehensive income (loss)

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

m.) Per common share amounts

Basic loss per share, is calculated by dividing the net earnings or loss by the weighted average number of shares outstanding during the year. Diluted loss per share, is calculated by using the treasury stock method, by adjusting the weighted average number of shares outstanding for the potential number of issued instruments which may have a dilutive effect on net earnings or loss. This method assumes that proceeds received from the exercise of in-the-money instruments are used to repurchase common shares at the average market price for the year.

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, 2013 or later periods. The standards issued that are not yet effective that may be applicable to the Corporation are as follows:

a.) IAS 32, "Financial Instruments: Presentation" was issued in December 2011 to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IAS 32 are effective for the Corporation on January 1, 2014 with required retrospective application and early adoption permitted. The Corporation is currently assessing the impact of this standard.

b.) 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 impairment and hedge accounting. The Corporation is currently assessing the impact of this standard.

c.) 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 adoption of the amendments to this standard does not have a material impact on the Corporation's financial statements.

d.) 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 adoption of the amendments to this standard does not have a material impact on the Corporation's financial statements.

e.) 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 adoption of the amendments to this standard does not have a material impact on the Corporation's financial statements.

f.) 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 adoption of the amendments to this standard does not have a material impact on the Corporation's financial statements.

5. Critical accounting estimates and judgments:

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

5. Critical accounting estimates and judgments (continued):

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.

d.) Identification of cash generating units

The classification of assets into CGU's 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.

e.) Deferred taxes

Tax interpretations, regulations and legislation are subject to change and as such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

6. Trade and other receivables:

On November 12, 2012, the Corporation signed a sale agreement in relation to a past investment which was written off in 2009. Under the agreement, the Corporation has sold its interest in the past investment for $225,000, with $75,000 being paid upon the signing of the agreement and $150,000 to be paid at a future date. The $225,000 has been included in other revenue for the year ended June 30, 2013.

7. Discontinued operations:

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

Discontinued operations comprised of the following for the year ended June 30, 2013 and 2012:

	2013	2012
General and administrative	$ –	$4,874
Foreign exchange gain (loss)	–	(479)
Professional fees	–	–
Loss from discontinued operations	$ –	$(5,353)

8. Exploration and evaluation assets:

A reconciliation of the carrying amount of exploration and evaluation assets as at June 30, 2012 is set out below.

	Edson Area, Alberta
Cost	
At June 30, 2011	$1,022,726
Additions	13,451
Change in estimates of decommissioning liabilities	9,512
Impairment	(445,689)
Transfer to property, plant and equipment	(600,000)
At June 30, 2012	**$ –**

Management performed an impairment test prior to the transfer of the exploration and evaluation assets and determined an impairment of $445,689.

9. Property, plant and equipment:

CGU	**Provost Area, Alberta**	**Greencourt Area, Alberta**	**Edson Area, Alberta**	**Queenstown Area, Alberta**	**Wood River Area, Alberta**	**Total**
Cost						
June 30, 2011	9,018,977	79,419	–	317,423	427,698	9,843,517
Additions	140,272	426	21,525	660	8,056	170,939
Disposals	(4,786,172)	–	–	–	–	(4,786,172)
Transfer in from exploration and evaluation	–	–	600,000	–	–	600,000
June 30, 2012	$4,373,078	$79,845	$621,525	$318,083	$435,754	$5,828,284
Additions	–	–	(126)	–	–	(126)
Change in estimate of decommissioning liabilities	(5,590)	(177)	(604)	57	(3,923)	(10,237)
June 30, 2013	**$4,367,488**	**$79,668**	**$620,794**	**$318,140**	**$431,831**	**$5,817,921**

9. Property, plant and equipment (continued):

CGU	Provost Area, Alberta	Greencourt Area, Alberta	Edson Area, Alberta	Queenstown Area, Alberta	Wood River Area, Alberta	Total
Accumulated depletion						
June 30, 2011	(4,108,449)	(57,263)	–	(145,574)	(213,999)	(4,525,285)
Expense	(1,243,439)	(13,311)	(146,067)	(26,444)	(52,331)	(1,481,591)
Impairment	(1,104,827)	–	(470,258)	–	–	(1,575,085)
Disposal	2,805,753	–	–	–	–	2,805,753
June 30, 2012	$(3,650,962)	$(70,574)	$(616,325)	$(172,018)	$(266,330)	$(4,776,209)
Expense	(429,688)	(3,266)	(935)	(38,324)	(35,420)	(507,633)
Impairment	–	–	–	(55,498)	–	(55,498)
June 30, 2013	$(4,080,650)	$(73,840)	$(617,260)	$(265,840)	$(301,750)	$(5,339,340)
Net book value						
June 30, 2012	$722,116	$9,271	$5,200	$146,065	$169,424	$1,052,076
June 30, 2013	**$286,838**	**$5,828**	**$3,534**	**$52,300**	**$130,081**	**$478,581**

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 interest and other revenue for the year ended June 30, 2012.

On May 8, 2012, the Corporation sold one of its Provost properties with a net book value of $1,980,419 and decommissioning liabilities of $37,765 for gross proceeds of $6,000,000, resulting in a gain on sale of $4,054,140. The Corporation also incurred legal fees of $3,206 in relation to the transaction.

The Corporation performed an impairment test calculation at June 30, 2013 to assess the recoverable value of the oil and natural gas properties and equipment. The future prices are based on July 1, 2013 commodity price forecasts of the Corporation's independent reserve engineers. These prices have been adjusted for commodity price differentials specific to the Corporation. The following table summarizes the benchmark prices used in the impairment test calculation at June 30, 2013**:**

	Natural gas per mcf	Medium Oil per bbl
2013	3.01	93.90
2014	3.26	86.66
2015	3.46	80.91
2016	4.11	82.47
2017	4.91	90.35
2018	4.99	92.15
Thereafter	+1.5%/year	+1.5%/year

9. Property, plant and equipment (continued):

The Corporation accessed its property, plant and equipment for impairment on June 30, 2013 and 2012 by CGU. Impairment of $55,498 (2012 - $2,020,774) was recorded in certain CGU's as the carrying value exceeded their recoverable amount.

10. Decommissioning liabilities:

	June 30, 2013	June 30, 2012
Balance, beginning of year	$540,922	$528,255
Additions	–	9,719
Disposals	–	(37,765)
Finance cost	10,555	11,047
Revision of estimates	(11,929)	29,666
Balance, end of year	**$539,548**	**$540,922**

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 June 30, 2013 is approximately $575,627 (June 30, 2012 - $577,478), which is expected to be incurred over the next year to 14 years. An inflation factor of 3% per annum was applied to determine the expected future costs and an average risk free rate of 1.56% was used to calculate the present value of the estimated future decommissioning liabilities at June 30, 2013 (June 30, 2012 – 1.26%).

11. Share capital:

a.) Authorized:

Unlimited number of common voting shares and preferred shares

b.) Issued:

	Number of Shares	Amount
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)
Stock consolidation	(44,359,438)	–
Balance, June 30, 2012 and June 30, 2013	**22,179,706**	**$6,405,065**

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.

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.

11. Share capital (continued):

c.) Stock options:

The Corporation has implemented a stock option plan for Directors, Officers, employees, and consultants. The exercise price of each option approximates the market price for the common shares on the date the option was granted. Options granted under the plan generally vest over an eighteen month period from the date of the grant and expire five years after the grant date. The maximum number of common shares to be issued upon the exercise of options granted under the plan is 2,217,970 (June 30, 2012 – 2,217,970) common shares. The details of this plan are as follows:

	June 30, 2013		June 30, 2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	1,828,334	$0.32	495,000	$0.39
Granted	–	–	1,666,667	$0.30
Expired	(266,667)	$0.30	(333,333)	$0.33
Options outstanding, end of year	**1,561,667**	**$0.32**	**1,828,334**	**$0.32**
Exercisable, end of year	**1,561,667**	**$0.32**	**1,295,000**	**$0.33**

The following table summarizes information about stock options outstanding and exercisable at June 30, 2013:

Exercise Prices	Number	Weighted Average Remaining Life	Weighted Average Exercise Price
$0.30	191,667	0.65 years	$0.30
$0.45	61,667	0.85 years	$0.45
$0.45	175,000	1.17 years	$0.45
$0.30	933,333	3.44 years	$0.30
$0.30	200,000	3.69 years	$0.30
	1,561,667	**2.77 years**	**$0.32**

For the year ended June 30, 2013, the Corporation recorded stock based compensation expense of $46,995 (2012 - $241,379). The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2012
Risk-free interest rate	1.39%
Expected life of options	5 years
Expected volatility	173.83%
Forfeiture rate	16.00%
Dividend yield	0.00%
Weighted average fair value per option	$0.06

12. Contributed surplus:

The following table reconciles the Corporation's contributed surplus:

	June 30, 2013	June 30, 2012
Balance, beginning of year	$680,553	$439,174
Stock based compensation	46,995	241,379
Balance, end of year	**$727,548**	**$680,553**

13. Finance costs

The Corporations finance costs consists of the following:

June 30,	2013	2012
Bank fees	$720	$6,684
Interest expenses	4,494	99,438
Interest income	(560)	–
Accretion of decommissioning liabilities	10,555	11,047
Finance costs	**$15,209**	**$117,169**

14. Per share amounts:

Net income (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:

June 30,	2013	2012
Weighted average shares outstanding, basic	22,179,706	20,695,696
Effect of stock options	–	–
Weighted average shares outstanding, diluted	22,179,706	20,695,696

In calculating diluted loss per common share for the year ended June 30, 2013 and 2012, the Corporation excluded 1,561,667 (2012 – 1,828,334) stock options as the exercise price is greater than the average market price of the common shares for the year.

15. Income taxes:

The income tax provision differs from income taxes, which would result from applying the expected tax rate to net loss before income taxes. The differences between the "expected" income tax expenses and the actual income tax provision are summarized as follows:

	June 30, 2013	June 30, 2012
Income (loss) from continuing operations	$(1,237,164)	$428,018
Expected income tax (recovery) at 25.00% (2012 – 27.25%)	(309,291)	110,215
Stock-based compensation	11,749	62,155
Discontinued operations	–	(1,378)
Non-taxable portion of capital gain	–	(118,081)
Effect of change in tax rate and other items	(104,042)	69,470
Deferred tax assets (recognized) not recognized	401,584	(122,381)
Total income taxes (recovery)	$ –	$ –

The components of the net future income tax assets (liabilities) are as follows:

	June 30, 2013	June 30, 2012
Petroleum and natural gas properties	$254,886	$191,737
Non-capital losses available for future periods	812,482	508,640
Capital losses available for future periods	59,367	16,700
Share issuance costs	6,046	11,367
Foreign tax pools	24,781	27,534
Deferred tax assets not recognized	(1,157,562)	(755,978)
Net future tax liabilities	$ –	$ –

As at June 30, 2013, the Corporation has for tax purposes, non-capital losses available to carry forward to future years totaling approximately $3,027,056 (2012 - $2,035,000).

The net operating loss carry-forwards reflected above expire as follows:

Year of Expiry	Total
2033	$914,333
2032	272,478
2031	702,801
2030	238,363
2029	798,095
2028	21,503
2027	34,483
Total	**$3,027,056**

16. Key management compensation and related party transactions:

a.) Key management compensation

Key management personnel are composed of the Corporation's Directors and Officers as set out in its information circular.

For the year ended June 30, 2013, the Corporation incurred consulting fees of $123,500 (2012 – $429,389) paid to companies which are controlled by key management of the Corporation, which are included in general and administrative on the consolidated statement of comprehensive income (loss). The Corporation also incurred $31,157 (2012 - $192,185) in stock based compensation for options issued to key management. At June 30, 2013, $Nil of consulting fees remained outstanding (June 30, 2012 – $268,259) and are included in trade and other payables.

For the year ended June 30, 2013, the Corporation incurred consulting fees of $12,738 (2012 – $Nil) paid to companies which are controlled by former key management of the Corporation, which are included in general and administrative on the consolidated statement of comprehensive income (loss). The Corporation also incurred $11,087 (2012 - $Nil) in stock based compensation for options issued to former key management. At June 30, 2013, $Nil of consulting fees remained outstanding (June 30, 2012 – $Nil).

b.) Related party transactions

During the year ended June 30, 2013, the Corporation incurred legal costs of $28,731 (2012 - $45,802) 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, $2,614 were included in trade and other payables at June 30, 2013 (June 30, 2012 - $Nil).

17. Financial instruments:

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

June 30, 2013 Asset (liability)	**Fair value through profit or loss**	**Loans and receivables at amortized cost**	**Financial liabilities at amortized cost**	**Total**
Cash and cash equivalents	$ –	$3,136,429	$ –	$3,136,429
Trade and other receivables	–	279,498	–	279,498
Trade and other payables	–	–	(341,337)	(341,337)
	$ –	**$3,415,927**	**$(341,337)**	**$3,074,590**

June 30, 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	$ –	$4,069,243	$ –	$4,069,243
Trade and other receivables	–	150,672	–	150,672
Trade and other payables	–	–	(532,422)	(532,422)
	$ –	**$4,219,915**	**$(532,422)**	**$3,687,493**

The carrying value of the Corporation's financial instruments approximate their fair value due to the short term nature of these instruments.

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 June 30, 2013, the Corporations trade and other receivables of $279,498 (2012 - $150,672) consisted of $20,083 (2012 - $59,392) due from petroleum marketers, $64,855 (2012 - $35,520) due from joint venture partners, $150,000 (2012 - $Nil) due from a past investment that has been sold and $44,533 (2012 - $55,760) of other receivables.

17. Financial instruments (continued):

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. The maximum credit risk exposure associated with the Corporation's financial assets is the carrying value.

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 June 30, 2013:

Financial Liabilities	**< One Year**	**> One Year**
Trade and other payables	$341,337	$ −
Total	**$341,337**	**$ −**

The following are the contractual maturities of financial liabilities as at June 30, 2012:

Financial Liabilities	**< One Year**	**> One Year**
Trade and other payables	$532,422	$ −
Total	**$532,422**	**$ −**

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 balances. The Corporation has not entered into any interest rate swaps or financial contracts to date.
- 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.

18. Capital disclosures:

In the definition of capital, the Corporation includes shareholders' equity. The Corporation`s objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

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

19. Contingencies:

On December 14, 2012, the Corporation received notice of a statement of claim that was filed in regards to the Provost area property, which had been sold earlier in 2012. On May 28, 2013, the Corporation settled the claim for $450,000, and has included this amount in the consolidated statement of comprehensive income (loss) for the year ended June 30, 2013.

20. Subsequent events:

On July 23, 2013, the Corporation ("Blackhawk") announced that it entered into a definitive share exchange agreement (the "Agreement") with Global Royalty Corp. ("GRC"), a private British Columbia resource royalty corporation (the "Transaction"). The Transaction will involve a consolidation of the shares of Blackhawk at a ratio based upon the net working capital of Blackhawk at the time of the merger. The ratio will be outlined in the management information circular that will be prepared and distributed to all existing shareholders. In exchange for all of the issued shares of GRC, Blackhawk will issue, post consolidation, up to 30.5 million shares, subject to an adjustment based on GRC issued for cash or in consideration with GRC Royalty agreements completed prior to the closing date.

In connection with the transaction, Blackhawk currently intends to obtain a fairness opinion with respect to the consideration to be paid for the GRC shares and dilutive securities.

In connection with the execution of the Agreement, Blackhawk will be advancing as a loan to GRC $1.65 million to repay an existing GRC credit facility (the "Blackhawk Loan"). The Blackhawk Loan will bear interest at the prime rate plus 3% and is secured by general security agreements from GRC and its subsidiaries. The Loan is subject to TSX Venture Exchange approval.

The Transaction remains subject to customary closing conditions including, but not limited to, Blackhawk shareholder approval and approval of the TSX Venture Exchange.