



**BLACKHAWK RESOURCE CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FORM 51-102F1**

**FOR THE PERIOD ENDED DECEMBER 31, 2013**

**February 24, 2014**

Management's Discussion and Analysis should be read in conjunction with the interim consolidated financial statements for the period ended December 31, 2013, and the consolidated financial statements for the year ended June 30, 2013. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A includes references to "operating netback," a financial measure, which does not have a standardized meaning prescribed by generally accepted accounting principles (GAAP) or International IFRS. Because this non-GAAP measure is commonly used in the oil and gas industry, the Corporation believes that its inclusion is useful to investors. The Corporation uses this measure to evaluate its performance. Investors are cautioned that this non-GAAP measure should not be construed as an alternative to the measure calculated in accordance with IFRS as, given its non-standardized meaning; it is unlikely to be comparable to similar measures presented by other issuers. This non-GAAP measure should not be considered an alternative to, or more meaningful than, net income as determined in accordance with IFRS as an indicator of the Corporation's performance. The term "operating netback" is defined as oil and natural gas sales less royalties and less operating expenses.

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.

## **1. OVERALL PERFORMANCE**

On February 18, 2014, the Corporation announced it will be pursuing a change in business. After a thorough evaluation of the Corporation's existing resources and a review of strategic options for the Corporation generally, the Corporation determined to refocus its business operations from an "oil and gas issuer" to an "investment issuer". The Board believes that its network of business contacts, the depth of experience of its management team and its overall entrepreneurial approach will enable it to identify and capitalize upon investment opportunities as an "investment issuer".

Upon completion of the proposed change of business, the Corporation's primary focus will be to seek returns through investments in the securities of other companies and other assets.

### **Petroleum and natural gas properties**

The Corporation's petroleum and natural gas assets are composed of interests in several properties in the province of Alberta.

The Corporation averaged production of 60 BOE/D during the three month period ended December 31, 2013 (2012 – 41 BOE/D), split 82% oil and 18% gas (2012- 69% oil and 31% gas). The Corporation's current production is approximately 53 BOE/D.

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 one producing gas well (owned 6.25%).

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

## 2. SELECTED QUARTERLY INFORMATION

	<u>Three month period ended</u>			
	<b>Dec 31, 2013</b>	<b>Sep 30, 2013</b>	<b>Jun 30, 2013</b>	<b>Mar 31, 2013</b>
Net revenue after royalties	\$447,820	\$245,644	\$112,971	\$154,289
Net comprehensive loss	(17,120)	(40,418)	(319,419)	(651,387)
Basic and diluted - comprehensive loss per share	(0.00)	(0.00)	(0.01)	(0.03)

	<u>Three month period ended</u>			
	<b>Dec 31, 2012</b>	<b>Sep 30, 2012</b>	<b>Jun 30, 2012</b>	<b>Mar 31, 2012</b>
Net revenue after royalties	\$387,856	\$181,780	\$254,513	\$480,090
Net comprehensive income (loss)	(23,472)	(242,886)	1,296,612	(263,775)
Basic and diluted - comprehensive income (loss) per share	(0.00)	(0.01)	0.06	(0.01)

The above noted financial data should be read in conjunction with the interim consolidated financial statements for the period ended December 31, 2013, and the consolidated financial statements for the year ended June 30, 2013.

## 3. RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD

### Oil and natural gas sales revenue and pricing

<i>Revenue</i>	<i>Three months ended December 31, 2013</i>	<i>Three months ended December 31, 2012</i>
Oil / NGLs	\$273,801	\$173,864
Natural Gas	21,537	25,781
Total Revenue	295,338	199,645
Royalties	(101,458)	(36,789)
<b>Oil and natural gas revenue, net of royalties</b>	<b>\$193,880</b>	<b>\$162,856</b>

<i>Product Prices-Sales</i>	<i>December 31, 2013</i>	<i>December 31, 2012</i>
Oil / NGLs (\$/bbl)	\$60.95	\$67.50
Natural Gas (\$/mcf)	\$3.57	\$3.70

<i>Product Volumes</i>	<i>Three months ended December 31, 2013</i>	<i>Average BOE/D for the three months ended December 31, 2013</i>
Oil / NGLs	4,492 bbl	49 BOE/d
Natural Gas	6,040 mcf	11 BOE/d
<b>Total</b>	<b>5,499BOE</b>	<b>60 BOE/d</b>

<i>Product Volumes</i>	<i>Three months ended December 31, 2012</i>	<i>Average BOE/D for the three months ended December 31, 2012</i>
Oil / NGLs	2,576 bbl	28 BOE/d
Natural Gas	6,960 mcf	13 BOE/d
<b>Total</b>	<b>3,736 BOE</b>	<b>41 BOE/d</b>

*December 31, 2013*

<b>Netbacks</b>	<b>Oil &amp; NGL per bbl</b>	<b>Gas per mcf</b>	<b>Total per BOE</b>
Revenue	\$60.95	\$3.57	\$53.71
Royalties	(22.54)	(0.03)	(18.45)
Operating Expenses	(14.16)	(2.36)	(14.16)
<b>Operating Netback</b>	<b>\$24.24</b>	<b>\$1.18</b>	<b>\$21.09</b>

*December 31, 2012*

<b>Netbacks</b>	<b>Oil &amp; NGL per bbl</b>	<b>Gas per mcf</b>	<b>Total per BOE</b>
Revenue	\$67.50	\$3.70	\$53.44
Royalties	(14.27)	(0.16)	(9.85)
Operating Expenses	(27.04)	(8.85)	(35.13)
<b>Operating Netback</b>	<b>\$26.19</b>	<b>\$(5.31)</b>	<b>\$8.46</b>

The Corporation earned oil and gas revenue for the three month period December 31, 2013 of \$295,338 compared to \$199,645 for the three month period ended December 31, 2012. The increase in revenue is due to the increased production from the Bodo area wells in the period.

The Corporation paid a total of \$101,458 (\$18.45 per BOE) in royalties for the three month period ended December 31, 2013, compared with \$36,789 (\$9.85 per BOE) for the three month period ended December 31, 2012. The royalty rate increased due to the increased production from the Corporation's oil properties in the period.

Operating expenses for the three month period ended December 31, 2013 were \$77,890 or \$14.16 per BOE of production compared to \$35.13 per BOE for the three month period ended December 31, 2012. Operating costs are expected to remain steady through the next period.

#### **General and administrative**

General and administrative expenses for the three month period ended December 31, 2013 were \$195,344 compared with \$78,841 for the three month period ended December 31, 2012. The expense is mainly composed of consulting fees totaling \$132,700 (2012 - \$44,670), office rental fees of \$7,503 (2012 - \$7,067), and computer software and rentals of \$5,085 (2012 - \$5,024). The remaining expense is composed of other general office expenses. The Corporation incurred increased consulting fees in relation to the terminated share exchange agreement with Global Royalty Corp.

#### **Net comprehensive loss**

The net comprehensive loss of \$17,120 (\$0.00 per share) for the three month period ended December 31, 2013 compared with a net comprehensive loss of \$23,472 for the three month period ended December 31, 2012. Non-cash items included in net comprehensive loss was depletion of \$96,929 (2012 - \$158,388),

gain on sale of petroleum and natural gas properties of \$5,846 (2012 - \$Nil), financing costs of \$1,670 (2012 - \$2,641) and \$15,927 (2012 - \$28,042) in stock based compensation. The net comprehensive loss for the period has decreased due to the receipt of a termination fee in relation to the canceled share exchange agreement of \$250,000.

#### **Cash flow from continuing operations**

Cash flow from continuing operations was a positive \$49,428, compared with a negative \$296,473 in the three month period ended December 31, 2012. The increased cash flow in the period is due to an increase in net operating cash flow from the Corporation's resource properties as well as the receipt of a termination fee in relation to the canceled share exchange agreement.

#### **4. LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2013, the Corporation had working capital of \$3,232,111 which compares to working capital of \$3,107,782 at June 30, 2013. The positive working capital will allow the Corporation to continue to operate while reviewing future possible business transactions.

#### **5. TRANSACTIONS WITH RELATED PARTIES**

For the three month period ended December 31, 2013, the Corporation incurred consulting fees of \$32,700 (2012 - \$33,250) paid to companies which are controlled by key management of the Corporation, which are included in general and administrative on the interim consolidated statement of comprehensive loss. The Corporation also incurred \$13,625 (2012 - \$29,151) in stock based compensation for options issued to key management. At December 31, 2013, no consulting fees remained outstanding (2012 - \$Nil).

During the three month period ended December 31, 2013, the Corporation incurred legal costs of \$4,935 (2012 - \$11,182) 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, none were included in trade and other payables at December 31, 2013 (2012 - \$Nil).

#### **6. OFF-BALANCE SHEET TRANSACTIONS**

As at February 24, 2014, the Corporation does not have any off-balance sheet arrangements.

#### **7. ACCOUNTING POLICIES**

The consolidated financial statements and related MD&A 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 transition. The consolidated financial statements have been prepared on a going concern basis.

A summary of the Corporations significant accounting policies under IFRS is presented in Note 3 - "Significant accounting policies" in the Corporation's consolidated financial statements for the years ended June 30, 2013 and 2012. These policies have been applied consistently for all periods presented in the consolidated financial statements.

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.

## **8. 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 issued that are not yet effective that may be applicable to the Corporation are as follows:

**a)** IFRS 7, “Financial Instruments: Disclosures” and IAS 32, “Financial Instruments: Presentation” were 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 IFRS 7 are effective for the Corporation on January 1, 2013 with required retrospective application and early adoption permitted. 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 classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Corporation is currently assessing the impact of this standard.

## **9. CRITICAL ACCOUNTING ESTIMATES**

### **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.

## 10. FINANCIAL INSTRUMENTS

The Corporation's financial instruments as at December 31, 2013 include cash and cash equivalents, trade and other receivables, and trade and other payables. 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.

## 11. DISCLOSURE OF OUTSTANDING SHARE DATA (as at February 24, 2014)

### 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	61,667	\$0.45	May 6, 2014	N/A
Options	175,000	\$0.45	September 1, 2014	N/A
Options	866,667	\$0.30	December 7, 2016	N/A
Options	200,000	\$0.30	March 9, 2017	N/A
Options	700,000	\$0.10	December 18, 2018	N/A

## 12. 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 February 24, 2014.**

### **13. 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, casing, 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.

#### 14. DEFINITIONS

In this Management's 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

#### 15. ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com).