BLACKHAWK RESOURCE CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FORM 51-102F1

FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2010

February 28, 2011

Management's Discussion and Analysis should be read in conjunction with the interim consolidated financial statements for the three month period ended December 31, 2010 and the audited consolidated financial statements for the ten month period ended June 30, 2010. The audited consolidated financial statements and financial data contained in the MD&A have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and are expressed in Canadian dollars.

On September 1, 2009 the Corporation changed its year end to June 30 from August 31. The year end change was necessary to make the Corporation's financial statements directly comparable to other junior oil and gas corporations on a quarterly basis. This change in year end requires the Corporation to have a transition year with a ten month period ending June 30, 2010. Comparatives for the current period are the three months ended December 31, 2010 and three months ended March 31, 2010.

HIGHLIGHTS

- Approximately 15,570 barrels of oil equivalent were produced for the three months ended December 31, 2010
- Exit rate for the quarter of 202 BOE/D
- Cash flow from operations for the six month period of $418,000

PETROLEUM AND NATURAL GAS PROPERTIES

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

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, and medium gravity oil from the Sparky Formation. Blackhawk has approximately 8,195 net acres of land in the Bodo area. Currently there are four 100% owned producing oil wells and two producing gas wells (owned 100% and 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 percent; Queenstown, two producing oil and gas wells with a working interest of 30 percent; and Greencourt, one producing oil well with a working interest of 21 percent.

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

The Corporation averaged production of 169 BOE/D during the three month period ended December 31, 2010. The split of production is 88% oil and 12% gas. The Corporation's current production is 175 BOE/D.

CORPORATE

On September 1, 2009, the Corporation closed the acquisition of all of the issued and outstanding common shares of Black Bore Exploration Ltd. The aggregate consideration paid by Blackhawk for all of the Black Bore common shares was a total of 7,694,671 units of Blackhawk at a deemed price of $0.10 per unit. Each unit of Blackhawk was comprised of: (a) one Blackhawk common share; (b) one 75 BOE/D performance right; and (c) 0.6 of one 150 BOE/D performance right. Each whole performance right will entitle the holder to acquire one Blackhawk common share without additional consideration upon satisfaction of the relevant production threshold. This acquisition resulted in the issuance of performance rights to acquire a further 12,311,473 Blackhawk common shares.

On August 27, 2010 all of the 75 BOE/D performance rights were converted to common stock of the Corporation and 7,694,671 common shares were issued with a value of $0.14 per share.

On November 29, 2010, the Corporation announced the vesting of the remaining 150 BOE/D performance rights. The vesting of these rights resulted in the issuance of 4,616,802 common shares, valued at $0.115 per share.

FINANCING

On August 6, 2010, The Corporation established a $3.3 million reserves based revolving credit facility with ATB Financial. The credit facility will be used for general corporate purposes and to fund future drilling on Blackhawk's core properties.

On December 10, 2009 the Corporation issued 10,000,000 common shares on a flow-through basis at a price of $0.17 per Flow-Through Share. Gross proceeds of the private placement totaled $1,700,000 and incurred $98,122 in share issue costs. Prior to December 31, 2010, the Corporation had incurred eligible expense to meet its commitments in regard to the flow through obligations.

EXPLORATION AND DEVELOPMENT

During the three month period ended December 31, 2010, Blackhawk participated with a 22% working interest (14.67% APO) in an Edson Cardium horizontal well which spud in November, 2010. Well samples encountered good oil shows and gas detection response. Completion operations commenced in December, 2010, with a 12 stage multifrac stimulation program. In February, 2011, operations began to equip and test the well

In October, 2010, the Bodo #1 well loaded up with anticipated fluid which resulted in equipping and setting the well up as a pumping oil well. Oil production commenced in November, 2010.

The Bodo #2 horizontal well continues to be a steady producer at approximately 67 BOE/d. Three follow-up locations have been surveyed and set up as a multi well pad site. An incinerator was commissioned to be built which will reduce the casing pressure on the Bodo #2 horizontal well which should allow production to increase. Installation of the incinerator is expected to be completed in the next quarter.

At the Bodo multi well oil battery and water disposal facility, operations ran smoothly with production averaging 79 BOE/d.

SELECTED QUARTERLY INFORMATION

	Three month period ended			
	Dec 31, 2010	**Sept 30, 2010**	**Jun 30, 2010**	**Mar 31, 2010**
Net sales	$887,855	$764,619	$484,351	$86,407
Net income (loss)	(405,723)	140,678	487,088	(753,034)
Basic and diluted net income (loss) per share	(0.01)	0.00	0.01	(0.02)

	Three month period ended			
	Dec 31, 2009*	**Aug 31, 2009**	**May 31, 2009**	**Feb 28, 2009**
Net sales/total revenues	$168,379	$41,977	$15,495	$54,333
Net income (loss)	(423,058)	(855,511)	(286,355)	(702,533)
Basic and diluted net income (loss) per share	(0.01)	(0.03)	(0.01)	(0.03)

*December 31, 2009 is for the four month period ended.

The above noted financial data should be read in conjunction with the interim December 31, 2010 and audited year end June 30, 2010 financial statements. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD

OIL AND NATURAL GAS SALE REVENUE AND PRICING

Revenue	***Three months ended December 31, 2010***
Oil / NGLs	$860,777
Natural Gas	50,098
Total Revenue	$910,875
Royalties	(23,020)
Revenue, net of royalties	**$887,855**

Product Prices	***December 31, 2010***
Oil / NGLs ($/bbl)	$65.07
Natural Gas ($/mcf)	$3.40

Product Volumes	*Three months ended December 31, 2010*	*Average BOE/D for the three months ended December 31, 2010*
Oil / NGLs	13,229 bbl	144 BOE/d
Natural Gas	14,725 mcf	25 BOE/d
Total	15,570 BOE	169 BOE/d

			December 31, 2010
Netbacks	**Oil & NGL per bbl**	**Gas per mcf**	**Total per BOE**
Revenue	$65.07	$3.40	$58.50
Royalties	1.67	0.06	1.48
Operating Expenses	23.46	3.29	23.04
Operating Netback	$39.94	$0.05	$33.98

The Corporation earned oil and gas revenue for the three month period ending December 31, 2010 of $910,875. The increase in revenue is due to the production from the Sparky horizontal well and the McLaren oil wells coming on stream in the current year, over the comparative quarter ended March 31, 2010.

The Corporation paid a total of $23,020 ($1.48 per BOE) in royalties in the three month period ended December 31, 2010. The royalty rate decrease is due to the Corporation receiving drilling credits, as well as the current royalty rate on new wells is substantially lower for the first year of production. The royalty rate is expected to increase as production continues..

Operating expenses for the three month period ended December 31, 2010 were $358,795 or $33.98 per BOE of production compared to $15.81 at yearend. The increase is related to well workovers completed in the period on the Corporations wells in the Bodo area. Operating costs are expected to decrease in the next quarter.

GENERAL AND ADMINISTRATIVE

General and Administrative expenses for the three month period ended December 31, 2010 were $309,897 compared with $164,159 for the three month period in March 2010. The expense is mainly composed of consulting fees totaling $192,800, office rental fees of $16,431, insurance fees of $14,095, and computer software and rentals of $13,836. The remaining expense is composed of other general office expenses. The increase in general and administrative expenses was due to the costs associated with the terminated proposed merger with Ranger Energy Ltd. These expenses are not expected to be recurring.

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. As such, the Corporation sold its remaining construction related assets and began to actively market its Brazilian properties. The results of operations of the Corporation's construction operations and Brazilian oil and gas activities have been retroactively reclassified in the statement of operations as discontinued operations, net of income taxes. For the three month period ended December 31, 2010 the Corporation incurred a loss, net of income taxes from discontinued operations of $59 (March 31, 2010 - $477,099).

NET LOSS

The net loss of $405,723 (($0.01) per share) was mainly due to an increase in field operating costs for the period resulting from the well workovers on the Bodo property. The Corporation also incurred increased consulting and professional fees for the period related to the terminated amalgamation with Ranger Energy Ltd. Non-cash items incurred in the period affecting income are depletion, depreciation and accretion of $403,002. This compares to the net loss of $753,034 (($0.02) per share) for the three month period in March 2010.

CASH FLOW FROM CONTINUING OPERATIONS

Cash flow from continuing operations was a $6,685, compared with a negative $127,428 in the three month period ended March 31, 2010. The positive cash flow related to the continued increase in production for the period.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010 the Corporation had working capital deficit of $2,582,954 which compares to working capital deficit of $421,451 at June 30, 2010. The decrease in working capital is the result of the Corporation's increased expenditures on its drilling projects and increased operating expenses in the period.

With the current working capital deficit of $2,582,954, the Corporation may require additional financing in order to continue exploration and development of its oil and gas properties. This additional financing may come in the form of equity and/or debt financing. The Corporation's day to day operations are funded by the cash flow generated from its producing oil and gas properties.

On August 6, 2010, The Corporation established a $3.3 million reserves based revolving credit facility with ATB Financial. The credit facility will be used for general corporate purposes and to fund future drilling on Blackhawk's core properties.

TRANSACTIONS WITH RELATED PARTIES

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 related parties, and are comparable in terms, rates and conditions in the oil and gas industry.

During the three months ended December 31, 2010, companies controlled by officers and directors of the Corporation were paid $70,211 (March 31, 2010 - $104,500) in consulting fees in relation to the operations of the Corporation, which are included in general and administrative expenses in the statement of operations. At December 31, 2010 no amount was outstanding.

During the three month period ended December 31, 2010, the Corporation incurred legal costs of $Nil (March 31, 2010 - $11,961) 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, $Nil were included in accounts payable at December 31, 2010.

OFF-BALANCE SHEET TRANSACTIONS

As at February 28, 2011, the Corporation does not have any off-balance sheet arrangements.

CHANGE IN ACCOUNTING POLICIES

Future accounting pronouncements:

(a) Business Combinations:

In January 2009, the CICA issued Section 1582, Business Combinations. This Section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Corporation. Early adoption is permitted. This Section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with the International Financial Reporting

Standards (“IFRS”). The impact of this standard will depend on future business combinations entered into by the Corporation.

(b) Consolidations and non-controlling interests:

In January 2009, CICA issued Section 1601, Consolidations and Section 1602, Non-controlling Interests which replaces the existing standards. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 establishes standards for accounting for non-controlling interests in consolidated financial statements. These standards are effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Corporation is currently assessing the future impact of this new standard on its consolidated financial statements.

(c) International Financial Reporting Standards (“IFRS”):

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation’s reported financial position and reported results of operations.

The Corporation will continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators which may affect the timing, nature or disclosure of its adoption of IFRS

Corporation’s project consists of three key phases:

1. Scoping and diagnostic phase – this phase involves performing a high level impact analysis to identify areas that may be affected by the transition to IFRS. The results of this analysis are priority ranked according to complexity and the amount of time required assessing the impact of changes in transitioning to IFRS.

2. Impact analysis and evaluation phase – during this phase, items identified in the diagnostic phase are addressed according to the priority levels assigned to them. This phase involves analysis of policies and choices allowed under IFRS and their impact on the financial statements.

3. Financial implementation phase – involves implementation of all changes approved in the impact analysis phase including changes to information systems, business processes, modification of agreements and training of all staff impacted by the conversion.

The Corporation is currently working on the scoping and diagnostic phase and therefore the impact on the Corporation’s future financial position and results of operations under IFRS has not been determined. The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect the Corporations reported financial position.

FINANCIAL INSTRUMENTS

The Corporation’s financial instruments include cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities and shareholder loans. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximates their carrying amounts due to the short term maturities of these financial instruments. The fair value of the Corporations variable-rate shareholder loans approximates its carrying value as it is at a floating market rate of interest.

COMMITMENTS

On December 10, 2009, the Corporation issued 10,000,000 flow-through common shares at $0.17 per share for gross proceeds of $1,700,000. As at December 31, 2010, the Corporation had incurred $1,700,000 in exploration and development costs towards this flow-through share obligation satisfying the terms of this flow-through share offering.

The Brazilian properties required the completion of a minimum exploration program ("MEP") work unit commitments on the properties over a two year period commencing March 2008. MEP work units are satisfied through completion of seismic programs and other exploratory survey methods. MEP commitments over the two-year period could cost up to $692,000, for which a financial guarantee was provided. After the expiry of the licenses on the Brazilian properties, the Corporation was informed that there may be a claim in regards to this guarantee.

DISCLOSURE OF OUTSTANDING SHARE DATA (as at February 28, 2011)

Authorized and Issued Share Capital

Class	Par Value	Authorized	Issued
Common	Nil	Unlimited	60,039,144
Preferred	Nil	Unlimited	Nil

Description of Options and Contingent Performance Rights Outstanding

Security Type	Number	Exercise Price	Expiry Date	Recorded Value
Options	575,000	$0.10	February 23, 2014	N/A
Options	185,000	$0.15	May 6, 2014	N/A
Options	1,325,000	$0.15	September 1, 2014	N/A
Options	200,000	$0.15	April 14, 2011	N/A

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 28, 2011.

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.

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.
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
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

ADDITIONAL INFORMATION

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