



**BLACKHAWK RESOURCE CORP.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FORM NI51-102F1**

**FOR THE YEAR ENDED JUNE 30, 2019**

**October 28, 2019**

Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements for the year ended June 30, 2019. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Except as otherwise indicated below, all financial data in this MD&A has been prepared, in accordance with International IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

All dollar amounts in this MD&A are reported in Canadian dollars.

## **BUSINESS DESCRIPTION**

Blackhawk continues to hold certain equity and short term loan investments. The equity portion of its portfolio includes a significant investment in a private eSports company, UMG Media Corp. ("UMG"). UMG is involved in both live tournament events as well as online match play.

## **BUSINESS UPDATE**

On March 25, 2019, the Corporation announced that a binding transaction between UMG and Gega Capital Corp. ("Gega") whereby UMG will complete a reverse takeover transaction with the resulting issuer being renamed UMG Media Ltd. The Corporation holds 3,197,000 Common Shares of UMG which are expected to be exchanged for 11,612,783 Common Shares of Gega (each, a "Resulting Issuer Share") upon closing of the UMG/Gega transaction.

On April 8, 2019, the Corporation announced a record date for the distribution of the shares received on the UMG/Gega transaction to its shareholders of record on April 15, 2019. The Board of Directors have approved the distribution to shareholders of the Corporation ("Shareholders") of a return of capital (the "Return of Capital") consisting of a total of 11,612,783 Resulting Issuer Shares. Through the Return of Capital, Shareholders will receive approximately 0.28 Resulting Issuer Shares for each share of the Corporation. No fractional shares will be distributed. The Return of Capital will be paid to all registered shareholders of record as at the close of business on April 15, 2019. The distribution date of the Return of Capital was August 12, 2019.

On April 11, 2019, and with an update on May 14, 2019, the Corporation announced two potential acquisitions in the cannabis and CBD industries.

The Corporation and The Green Room have entered into a revised letter of intent dated May 13, 2019 to restructure the proposed transaction, such that Blackhawk now proposes to acquire the rights to a lease for a retail cannabis location in Nelson, British Columbia, as well as a database of potential retail cannabis customers. In order to facilitate the transaction, Blackhawk will acquire 1202465 B.C. Ltd. which is owned by the existing shareholders of CFPM Management Services Ltd. Blackhawk has entered into a letter of intent, dated effective May 13, 2019, pursuant to which Blackhawk proposes to acquire all the shares of 1202465 B.C. Ltd. for the issuance of 20,000,000 common shares of Blackhawk. This transaction closed on May 17, 2019, with the issuance of 20,000,000 common shares of the Corporation, bringing the total outstanding shares of the Corporation to 61,196,374.

The Corporation and Noble have entered into a letter of intent dated April 10, 2019 with respect to a business combination (whereby the Corporation will acquire all of the issued and outstanding common shares of Noble. The Corporation currently owns 13.5% of the outstanding Noble common shares acquired through a previously completed transaction. The purchase price will be paid through the issuance of 40,000,000 Blackhawk Shares based upon a value of \$0.05 per Blackhawk Share. This purchase price includes common shares of Noble which are currently owned by the Corporation. Noble shareholders, other than the Corporation, will receive 34,680,000 Blackhawk Shares. In addition the current shareholders of Noble will be able to acquire an additional 43,000,000 Blackhawk Shares at a price of \$0.05 per share if certain revenue targets for Noble are met.

Scott Seguin, a director of the Corporation, is also a director and shareholder of Noble.

On May 28, 2019, the Corporation announced that it has closed a non-brokered private placement for 19,996,500 common shares at a price of \$0.05 per common share for gross proceeds of \$998,250. Commissions totaling \$30,300 were paid in relation to the financing.

#### **SUBSEQUENT TO YEAR END**

On July 29, 2019, the Corporation granted stock options to acquire 3,600,000 to various directors, officers and consultants of the Corporation.

On July 29, 2019, the Corporation acquired 100% of the common shares of 1216372 BC Ltd. for the issuance of 20,000,000 common shares of the Corporation. 1216372 BC Ltd. has applied for two retail cannabis licenses at leased locations in British Columbia.

On August 12, 2019, the Corporation completed the distribution of the UMG shares to its shareholders.

On August 27, 2019, the Corporation, through its wholly-owned Delaware subsidiary, incorporated after year end, and KO Logistics LLC Brands entered into a term sheet dated August 21, 2019, to review a potential acquisition.

#### **PORTFOLIO INVESTMENTS**

As at June 30, 2019, the Corporation held total investments of \$4,461,555 comprised of equity type investments of \$4,171,555 and short term loan investments of \$290,000. In addition, the Corporation held a cash balance of \$165,331.

#### **Investments at fair value by sector consist of the following as at June 30, 2019:**

<b>Sector</b>	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>% of total fair value</b>
Mining	\$508,166	\$ -	\$ -	\$ -	\$ -	0%
Cannabis	1,350,050	-	-	42,113	42,113	51%
Technology and Esports	455,268	-	40,162	-	68,810	49%
<b>Total Investments at Fair Value</b>	<b>\$2,313,484</b>	<b>\$ -</b>	<b>\$40,162</b>	<b>\$42,113</b>	<b>\$82,275</b>	<b>100%</b>
<b>Investments due to shareholders</b>	<b>\$1,358,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,089,280</b>	<b>\$4,089,280</b>	

#### **Debt instrument investments consist of the following as at June 30, 2019:**

Short term loans	\$290,000
<b>Total current debt instrument investments</b>	<b>\$290,000</b>

**Investments at fair value by sector consist of the following as at June 30, 2018:**

<b>Sector</b>	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>% of total fair value</b>
Mining	\$508,166	\$ -	\$ -	\$ -	\$ -	0%
Technology and Esports	1,813,268	-	-	4,795,500	4,795,500	100%
<b>Total</b>	<b>\$2,321,434</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,795,500</b>	<b>\$4,795,500</b>	<b>100%</b>

**Debt instrument investments consist of the following as at June 30, 2018:**

Short term loans	\$375,000
<b>Total current debt instrument investments</b>	<b>\$375,000</b>

\*Realizable amounts may differ from carrying values.

The fair value of the UMG Media Corp. (“UMG”) common shares included in level 3 of \$4,089,280 is due to shareholders (June 30, 2018 - \$4,795,500) and is a related party investment (a related party with two directors and two officers in common). The investment has been evaluated based on available data from UMG, including prior private placements. As at June 30, 2019, the Corporation owned 3,197,000 common shares, representing a 19.2% ownership, with all of the shares to be distributed to the Corporations shareholders as a return of capital subsequent to year end.

The fair value of Noble Line Inc. (“Noble”), a related party (with one common director) that is active in the online hemp and CBD products is \$Nil and is included in level 3. As at June 30, 2019, the Corporation owned 71,500 common shares with an initial value of \$0.70 per share, representing 13.5% ownership. The investment has been evaluated based on available data from Noble, and given the need for Noble to find additional capital funding, the higher than expected costs of start up and the increased competition in the industry, the Corporation has taken a write down of this investment of \$50,050.

The fair value of 1202465 BC Ltd., a company that has applied for a retail cannabis license at a leased location in BC, which was acquired on May 17, 2019 is \$42,113 with a cost of \$1,300,000 and is included in level 3. The investment is comprised of 100% of the common shares of 1202465 BC Ltd. Due to the lack of additional information to support the initial purchase price, the investment was evaluated based on the present value of the future lease payments resulting in a write down of this investment of \$1,257,887.

In June, 2017, the Corporation settled one of its short term loans for shares of Redwing, a related party with a director and officer in common, in the amount of \$508,166 for 400 common shares, which gave the Corporation 50% ownership in Redwing. During 2017, the Corporation had taken settlement of the debt through the obtaining the shares of Redwing, during 2018 the Corporation had determined the fair value of the investment in Redwing at June 30, 2018, was \$Nil. On June 20, 2018, the Corporation was able to negotiate new agreement with the original debtor to the Corporation due to the situation with Redwing. The original debtor has agreed to pay the Corporation a total of \$450,000. The \$450,000 has been moved to short terms loans. The balance was repaid prior to June 30, 2019.

At June 30, 2019, the Corporation held three separate short term loans for an aggregate principal of \$290,000. Interest will accrue on the total amount outstanding as of the maturity. On June 30, 2019, the Corporation evaluated the value of a loan to Noble of \$195,000 and determined that based on the need for the company to secure additional capital funding, that the collectability of the loan was uncertain. The Corporation has taken a write down of the loan of \$195,000 as at June 30, 2019 and will continue to re-evaluate the collectability on a month by month basis.

As at January 31, 2019, the Corporation disposed of its 100% owned subsidiary, Blackhawk Resource Operating Corp. with total assets of \$129,805 and total liabilities of \$312,489 resulting in a gain on disposal of \$182,684.

#### SELECTED ANNUAL INFORMATION

	June 30, 2019	June 30, 2018	June 30, 2017
	(audited)	(audited)	(audited)
Investment revenue (loss)	\$(1,908,988)	\$(109,199)	\$2,660,574
Net petroleum revenue after royalties	-	42,390	51,946
Net comprehensive income (loss)	(2,310,615)	(710,326)	2,153,219
Total Assets	4,830,711	5,461,333	5,761,366
NAV	\$0.01	\$0.12	\$0.13
<b>Basic and diluted net income (loss) per share</b>	<b>\$(0.05)</b>	<b>(0.02)</b>	<b>0.05</b>

#### SELECTED QUARTERLY INFORMATION

	<u>Three-month period ended</u>			
	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
Net revenue	\$(2,166,554)	\$ -	\$ -	\$257,566
Net comprehensive income (loss)	(2,404,098)	49,633	(128,152)	172,001
Basic and diluted – comprehensive income (loss) per share	(0.05)	0.00	0.00	0.00

	<u>Three-month period ended</u>			
	Jun 30, 2018	Mar 31, 2018	Dec 31, 2017	Sep 30, 2017
Net revenue	\$423,385	\$(166,660)	\$37,861	\$(361,395)
Net comprehensive income (loss)	213,377	(281,070)	(138,000)	(504,633)
Basic and diluted – comprehensive income (loss) per share	0.00	(0.01)	(0.00)	(0.01)

#### RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2019

##### Net investment income (loss)

For the year ended June 30, 2019, the Corporation recorded investment loss of \$1,908,988 (2018 – investment loss of \$110,818). The increase in investment loss is due to the unrealized loss on investment of the 1202465 BC Ltd. shares held of \$1,257,887, the UMG shares held of \$706,220, the Noble shares held of \$50,050 and the Noble loan of \$195,000.

##### General and administrative

General and administrative expenses for the year ended June 30, 2019 were \$353,339 compared with \$299,641 for the year ended June 30, 2018. The general and administrative expense for the year is mainly composed of consulting fees totaling \$213,500 (2018 - \$181,500). General and administrative expense is also composed of office rental fees of \$27,125 (2018 - \$44,651), insurance expense of \$13,295 (2018 - \$15,984),

dues and filing fees of \$26,579 (2018 - \$9,200) and computer and software expense of \$17,752 (2018 - \$17,905). The remaining expense is composed of other general office expenses.

#### **Net comprehensive loss**

The net comprehensive loss of \$2,310,615 (\$0.06 per share) for the year ended June 30, 2019 (2018 – \$710,326) has increased due to the unrealized loss on investment of the 1202465 BC Ltd. shares held of \$1,257,887, the UMG shares held of \$706,220, the Noble shares held of \$50,050 and the Noble loan of \$195,000.

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

Cash flow from operations for year ended June 30, 2019 was a negative \$886,041 compared to \$191,895 2018. During the year ended June 30, 2019, the Corporation had proceeds of disposition of \$375,000 which resulted in a net realized gain of \$10,000 compared to proceeds from disposition of investments of \$218,313 which resulted in a net realized gains of \$48,956 in 2018. During the year ended June 30, 2019, the Corporation purchased \$535,050 of investments compared to \$34,200 in 2018.

### **THREE MONTH PERIOD ENDED JUNE 30, 2019**

#### **Net investment income (loss)**

For the three month period ended June 30, 2019, the Corporation recorded investment losses of \$2,341,671 (2018 – net investment income of \$417,995) comprised of \$10,000 in net realized gain on disposal of investments (2018 - net realized gain of \$42,964), \$2,351,679 in net change in unrealized loss on investments (2018 - net change in unrealized gain of \$375,000), and \$7 (2018 - \$31) in interest income. The decrease in net investment income is due to the unrealized loss on investment of the 1202465 BC Ltd. shares held of \$1,257,887, the UMG shares held of \$706,220, the Noble shares held of \$50,050 and the Noble loan of \$195,000.

#### **General and administrative**

General and administrative expenses for the three month period were \$142,010 compared with \$41,325 for the same period in 2018. The increase in the general and administrative expense in 2019 relates mainly to the additional expenses incurred in the acquisitions of the retail lease locations

#### **Net comprehensive income (loss)**

The net comprehensive loss of \$2,404,098 (\$0.05 per share) for the three month period ended June 30, 2019 (2018 – net comprehensive income of \$213,377) is due to the unrealized loss on investment of the 1202465 BC Ltd. shares held of \$1,257,887, the UMG shares held of \$706,220, the Noble shares held of \$50,050 and the Noble loan of \$195,000 and an increase in costs related to the acquisitions.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2019, the Corporation will require additional funds to continue its investment strategy for the next twelve months. The Corporation will source funds through either debt or equity financing and such funds may not be available when needed. As of the date of this MD&A, the Corporation estimates that an additional \$300,000 for expenses may be needed in the next twelve months.

### **TRANSACTIONS WITH KEY MANAGEMENT AND RELATED PARTIES**

#### **a.) Key management compensation**

Key management personnel are composed of the Corporation's Directors and Officers.

For the year ended June 30, 2019, the Corporation incurred consulting fees of \$101,250 (2018– \$193,050), and directors fees of \$26,250 (2018 - \$25,000), 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 loss. At June 30, 2019, \$Nil in consulting fees remained outstanding (2018 – \$6,300) and \$9,000 in directors fees remained outstanding (2018 - \$7,312).

**b.) Related party transactions**

During the year ended June 30, 2019, the Corporation incurred legal costs of \$62,637 (2018 - \$16,565) 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 fair value of the service provided. Of the legal services provided, \$40,674 was included in trade and other payables at June 30, 2019 (2018 - \$Nil).

**c.) Investments with related parties**

The fair value of Redwing Energy Services, a related party (with one common officer and director), was determined to be \$Nil as at June 30, 2019 (June 30, 2018- \$Nil) due to the company ceasing to have any operations back in October 2017.

The fair value of Noble Line Inc. (“Noble”), a related party (with one common director) that is active in the online hemp and CBD products is \$Nil and is included in level 3. As at June 30, 2019, the Corporation owned 71,500 common shares with an initial value of \$0.70 per share, representing 13.5% ownership. The investment has been evaluated based on available data from Noble, and given the need for Noble to find additional capital funding, the higher than expected costs of start up and the increased competition in the industry, the Corporation has taken a write down of this investment of \$50,050.

On June 30, 2019, the Corporation evaluated the value of a loan to Noble of \$195,000 and determined that based on the need for the company to secure additional capital funding, that the collectability of the loan was uncertain. The Corporation has taken a write down of the loan of \$195,000 as at June 30, 2019 and will continue to re-evaluate the collectability on a month by month basis.

The fair value of the UMG Media Corp. (“UMG”) common shares included in level 3 of \$4,089,280 is due to shareholders (June 30, 2018 - \$4,795,500) and is a related party investment (a related party with two directors and two officers in common). The investment has been evaluated based on available data from UMG, including prior private placements. As at June 30, 2019, the Corporation owned 3,197,000 common shares, representing a 19.2% ownership, with all of the shares to be distributed to the Corporations shareholders as a return of capital subsequent to year end.

As at June 30, 2019, the Corporations short term loans included 2 related party agreements. The Noble loan for \$Nil and a loan to UMG for \$90,000.

On January 21, 2018, the Corporation entered into a letter of intent with respect to a business combination with UMG, whereby the Corporation would acquire all of the issued and outstanding common shares of UMG. On July 12, 2018 the letter of intent was terminated, and the Corporation received a \$250,000 termination fee from UMG.

On January 22, 2018, the Corporation entered into a note payable with UMG in the amount of \$250,000. The initial agreement included an interest rate of 10% per annum to be accrued on the loan and be payable quarterly. With the transaction as detailed above, in regard to the letter of intent with UMG, the interest payment was waived. On July 12, 2018, with the termination of the transaction, the Corporation allocated the note payable to the termination fee due from UMG.

On January 31, 2019, the Corporation entered into a note payable with a company, that subsequent to the issuance was owned by a director of the Corporation in the amount of \$50,000. The note payable includes a fee of \$5,000 and is due on or before August 31, 2019. In the event the note payable is not repaid by July 31, 2019, all outstanding amounts will bear interest at a rate of 2% per month, compounding monthly. As of June 30, 2019, the note payable was settled and no amount is outstanding.

**OFF-BALANCE SHEET TRANSACTIONS**

As at the date of this report the Corporation does not have any off-balance sheet arrangements.

**ACCOUNTING POLICIES**

The consolidated financial statements and related MD&A have been prepared on a historical cost basis except as disclosed in note 4 of the Corporation’s consolidated financial statements for the years ended June 30, 2019 and 2018.

A summary of the Corporation's significant accounting policies under IFRS is presented in note 4 – “Significant accounting policies” in the Corporation’s consolidated financial statements for the years ended June 30, 2019 and 2018. These policies have been applied consistently for all periods presented in the consolidated financial statements.

The consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional and presentation currency.

## ADOPTED ACCOUNTING STANDARDS

### IFRS 9 - Financial Instruments

Effective July 1, 2018, the Corporation adopted IFRS 9, Financial Instruments. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Corporation's consolidated financial statements for the year ended June 30, 2019.

IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss (“FVTPL”) or through other comprehensive income (“FVOCI”); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Corporation’s financial instruments:

The Corporation’s financial instrument classifications under IAS 39 and IFRS are as follows:

Financial Instruments Classification	IAS 39	IFRS 9
Cash	Held to maturity	Amortized Cost
Trade and other receivables	Loans and receivables	Amortized Cost
Investments at fair value	Held for trading	FVTPL
Trade and other payables	Other financial liabilities	Amortized Cost
Note payables	Other financial liabilities	Amortized Cost

The following are the Corporation’s new accounting policies for financial instruments under IFRS 9:

#### *Financial assets*

Non-derivative financial assets within the IFRS 9 are classified as “financial assets at fair value (either through other comprehensive income (“FVOCI”), or through profit or loss (“FVTPL”))”, and “financial assets at amortized costs” as appropriate. The Company determines the classification of its financial assets at initial recognition based on the Corporation’s business model and contractual terms of cash flows.

All financial assets are recognized initially at fair value plus, in the case of investments not at FVTPL, directly attributable transaction costs on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Where the fair values of financial assets recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

#### *Financial assets at FVTPL*

Financial assets measured at FVTPL include financial assets management intends to sell and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets



measured at FVTPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss and comprehensive loss.

#### *Financial assets at FVOCI*

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Corporation has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Corporation does not have any financial assets classified as at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

#### *Financial Assets at Amortized Cost*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

#### *Derecognition*

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Corporation transfers substantially all the risks and rewards of ownership of the asset.

#### *Impairment of financial assets*

The Corporation's only financial assets subject to impairment are trade and other receivables, which are measured at amortized cost. The Corporation has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

The expected lifetime loss of a financial asset at amortized cost, is estimated based on the expected credit loss ("ECL"). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

#### *Financial liabilities*

Non-derivative financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL as is the case for held for trading or derivative instruments, or the Corporation has opted to measure the financial liability at FVTPL. The Corporation's financial liabilities include trade payable and accrued liabilities and note payables, which are measured at amortized cost.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

#### *Financial liabilities at amortized cost*

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost, in the consolidated statements of loss and comprehensive loss.

### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gains or losses reported in other income or expense in the consolidated statements of loss and comprehensive loss.

### **IFRS 15 – Revenue from Contracts with Customers**

The Corporation elected to adopt IFRS 15 using the modified retrospective method, with recognition of transitional adjustments in opening retained earnings on the date of initial application (July 1, 2018), without restatement of comparative figures. The adoption of IFRS 15 did not result in any changes in the timing of revenue recognition for the Corporation's goods and services.

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

This is achieved by applying the following five steps: i) identify the contract with a customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations in the contract; and v) recognize revenue when (or as) the entity satisfies a performance obligation.

### **FUTURE ACCOUNTING STANDARDS**

#### **IFRS 16 – Accounting for Leases**

IFRS 16 replaces IAS 17, Leases was released in January 2016. This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Corporation is currently evaluating the impact the final standard is expected to have on its consolidated financial statements and does not expect material changes.

### **INVESTMENTS AT FAIR VALUE AND FINANCIAL HIERARCHY**

#### **Financial hierarchy:**

Fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Equity investments by sector consist of the following as at June 30, 2019:

<b>Sector</b>	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>% of total fair value</b>
Mining	\$508,166	\$ -	\$ -	\$ -	\$ -	0%
Cannabis	1,350,050	-	-	42,113	42,113	51%
Technology and Esports	455,268	-	40,162	-	40,162	49%
<b>Total Investments at Fair Value</b>	<b>\$2,313,484</b>	<b>\$ -</b>	<b>\$40,162</b>	<b>\$42,113</b>	<b>\$82,275</b>	<b>100%</b>
<b>Investments due to shareholders</b>	<b>\$1,358,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,089,280</b>	<b>\$4,089,280</b>	

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<b>Sector</b>	<b>Cost</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total fair value</b>	<b>% of total fair value</b>
Mining	\$508,166	\$ -	\$ -	\$ -	\$ -	0%
Technology and Esports	1,813,268	-	-	4,795,500	4,795,500	100%
<b>Total</b>	<b>\$2,321,434</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$4,795,500</b>	<b>\$4,795,500</b>	<b>100%</b>

Level 1 instruments include shares and warrants actively traded in an active market, level 2 instruments include warrants held in public companies and, level 3 instruments include common shares held in private companies.

The fair value of warrants granted is estimated using the Black-Scholes pricing model, taking into account amounts that are believed to approximate the volatility of the trading price of the company's shares, the expected lives of the warrants, the fair value of the company's stock and the risk-free interest rate, as determined at the grant date. A 25% change in the volatility used to measure these instruments will result in a corresponding \$6,300 (2018 - \$Nil) change in the value of the investment.

The investments due to shareholders of \$4,089,280 was declared as a return of capital on April 8, 2019 and would be categorized as a level 3 investment. The shares were distributed to the shareholders of the Corporation after year end.

The fair value of the level 3 investments of \$42,113 and \$4,089,280 (June 30, 2018 - \$4,795,500) are subject to market risk, commodity risk and change in demand in the mining and technology industry. A 5% change in the stock price used to fair value these instruments will result in a corresponding \$204,464 (June 30, 2018 - \$239,775) change in the value of the investment.

The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions. The analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Corporation's view of expected future changes in the fair value of these investments. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

In accordance with IFRS 10, the fair value of the Corporations investments includes the fair value of entities that are controlled by the Corporation.

The fair value of the common shares included in level 3 of \$42,113 and \$4,089,280 (June 30, 2018 - \$4,795,500) have been evaluated based on available data from the corporations involved.

The fair value of Redwing Energy Services, a related party (with one common officer and director), was determined to be \$Nil as at June 30, 2019 (June 30, 2018- \$Nil) due to the company ceasing to have any operations back in October 2017.

The fair value of Noble Line Inc. (“Noble”), a related party (with one common director) that is active in the online hemp and CBD products is \$Nil and is included in level 3. As at June 30, 2019, the Corporation owned 71,500 common shares with an initial value of \$0.70 per share, representing 13.5% ownership. The investment has been evaluated based on available data from Noble, and given the need for Noble to find additional capital funding, the higher than expected costs of start up and the increased competition in the industry, the Corporation has taken a write down of this investment of \$50,050.

The fair value of 1202465 BC Ltd., a company that has applied for a retail cannabis license at a leased location in BC, which was acquired on May 17, 2019 is \$42,113 with a cost of \$1,300,000 and is included in level 3. The investment is comprised of 100% of the common shares of 1202465 BC Ltd. Due to the lack of additional information to support the initial purchase price, the investment was evaluated based on the present value of the future lease payments resulting in a write down of this investment of \$1,257,887.

The fair value of the UMG Media Corp. (“UMG”) common shares included in level 3 of \$4,089,280 is due to shareholders (June 30, 2018 - \$4,795,500) and is a related party investment (a related party with two directors and two officers in common). The investment has been evaluated based on available data from UMG, including prior private placements. As at June 30, 2019, the Corporation owned 3,197,000 common shares, representing a 19.2% ownership, with all of the shares to be distributed to the Corporations shareholders as a return of capital subsequent to year end.

Short term loan investments consist of the following:

	June 30, 2019	June 30, 2018
Short term loans	\$290,000	\$375,000
<b>Total loan investments</b>	<b>\$290,000</b>	<b>\$375,000</b>

The carrying value of the Corporation’s short term loans approximates their fair value due to the short term nature of these loans and would be included in level 3 of the financial instruments hierarchy. Short term loans include loans issued for a period of 12 months or less at an average interest rate of 17% (June 30, 2018 – Nil%) starting July 1, 2019.

On June 30, 2019, the Corporation evaluated the value of a loan to Noble of \$195,000 and determined that based on the need for the company to secure additional capital funding, that the collectability of the loan was uncertain. The Corporation has taken a write down of the loan of \$195,000 as at June 30, 2019 and will continue to re-evaluate the collectability on a month by month basis.

As at June 30, 2019, the Corporations short term loans included 2 related party agreements. The Noble loan for \$Nil and a loan to UMG for \$90,000.

## DISCLOSURE OF OUTSTANDING SHARE DATA

### Authorized and Issued Share Capital as at October 28, 2019

Class	Par Value	Authorized	Issued
Common	Nil	Unlimited	101,161,374
Preferred	Nil	Unlimited	Nil

## **Description of Options and Contingent Performance Rights Outstanding**

<b>Security Type</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Recorded Value</b>
Options	1,500,000	\$0.10	August 4, 2020	N/A
Options	3,600,000	\$0.10	July 29, 2024	N/A

### **CAUTION REGARDING FORWARD LOOKING INFORMATION**

Certain information contained in this MD&A constitutes forward-looking information, which is information regarding possible events, conditions or results of operations of the Corporation that is based upon assumptions about future economic conditions and courses of action and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, without limitation, our expectations regarding anticipated investment activities, our ability to repay amounts which may become due and payable, the impact of changes in accounting policies and other factors on our operating results, and the performance of global capital markets and interest rates.

Forward-looking information involves 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 information. The Corporation believes the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risks relating to investment performance, our ability to realize sufficient proceeds from the disposition of our investments in order to fund our obligations as they become due (which will be based upon market conditions beyond our control), market fluctuations, fluctuations in prices of commodities underlying our interests and equity investments, the strength of the Canadian, U.S. and other economies, and other risks included elsewhere in this MD&A under the headings “Risk Factors” and “Financial Instruments” and in the Corporation’s current public disclosure documents filed with certain Canadian securities regulatory authorities and available under Blackhawk’s profile at [www.sedar.com](http://www.sedar.com).

Readers are cautioned that the foregoing lists of factors are not exhaustive. Although the Corporation has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking information contained in this MD&A is provided as of the date hereof and the Corporation undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

### **RISK FACTORS**

An investment in our securities is subject to certain risks, including those set out below and should be carefully considered by an investor before making any investment decision. Additional risks not currently known to us, or that we currently believe to be immaterial, may also affect our business and negatively impact upon an investment in our securities.

### **Portfolio Exposure**

Given the nature of our activities, our results of operations and financial condition are dependent upon the market value of the securities that comprise our portfolio. Market value can be reflective of the actual or anticipated operating results of our portfolio companies and/or the general market conditions that affect the

sectors in which we invest. Macro factors such as fluctuations in commodity prices and global political and economical conditions could have an adverse effect on one or more sectors to which we are exposed, thereby negatively impacting one or more of our portfolio companies concurrently. Company-specific risks could have an adverse effect on one or more of our portfolio companies at any point in time. Company-specific and industry-specific risks which materially adversely affect our portfolio investments may have a materially adverse impact on our operating results.

### **Cash Flow/Revenue**

We generate revenue and cash flow primarily from our financing activities and proceeds from the disposition of our investments, in addition to interest and dividend income earned on our investments and fees generated from securities lending and other activities. The availability of these sources of income and the amounts generated from these sources are dependent upon various factors, many of which are outside of our direct control. Our liquidity and operating results may be adversely affected if our access to the capital markets is hindered, whether as a result of a downturn in the market conditions generally or to matters specific to us, or if the value of our investments decline, resulting in capital losses for us upon disposition.

### **Illiquid Securities**

We also invest in illiquid securities of public issuers. A considerable period of time may elapse between the time a decision is made to sell such securities and the time we are able to do so, and the value of such securities could decline during such period. Illiquid investments are subject to various risks, particularly the risk that we will be unable to realize our investment objectives by sale or other disposition at attractive prices or otherwise be unable to complete any exit strategy. In some cases, we may be prohibited by contract or by law from selling such securities for a period of time or otherwise be restricted from disposing of such securities. Furthermore, the types of investments made may require a substantial length of time to liquidate.

We may also make direct investments in publicly-traded securities that have low trading volumes. Accordingly, it may be difficult for us to make trades in these securities without adversely affecting the price of such securities.

### **Possible Volatility of Stock Price**

The market price of our common shares may be subject to wide fluctuations in response to factors such as actual or anticipated variations in our consolidated results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations may adversely affect the market price of our common shares. The purchase of our common shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Our common shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in our common shares should not constitute a major portion of an investor's portfolio.

### **Trading Price of Common Shares Relative to Net Asset Value**

We are neither a mutual fund nor an investment fund, and due to the nature of our business and investment strategy and the composition of our investment portfolio, the market price of our common shares, at any time, may vary significantly from our net asset value per share. This risk is separate and distinct from the risk that the market price of our common shares may decrease.

### **Available Opportunities and Competition for Investments**

The success of our operations will depend upon: (i) the availability of appropriate investment opportunities; (ii) our ability to identify, select, acquire, grow and exit those investments; and (iii) our ability to generate funds for future investments. We can expect to encounter competition from other entities having investment objectives similar to ours, including institutional investors and strategic investors. These groups may compete for the same investments as us, may be better capitalized, have more personnel, have a longer operating history and have different return targets than us. As a result, we may not be able to compete successfully for

investments. In addition, competition for investments may lead to the price of such investments increasing which may further limit our ability to generate desired returns. There can be no assurance that there will be a sufficient number of suitable investment opportunities available to us to invest in or that such investments can be made within a reasonable period of time. There can be no assurance that we will be able to identify suitable investment opportunities, acquire them at a reasonable cost or achieve an appropriate rate of return. Identifying attractive opportunities is difficult, highly competitive and involves a high degree of uncertainty. Potential returns from investments will be diminished to the extent that we are unable to find and make a sufficient number of investments.

### **Share Prices of Investments**

Our investments in securities of public companies are subject to volatility in the share prices of the companies. There can be no assurance that an active trading market for any of the subject shares is sustainable. The trading prices of the subject shares could be subject to wide fluctuations in response to various factors beyond our control, including, quarterly variations in the subject companies' results of operations, changes in earnings (if any), estimates by analysts, conditions in the industry of the subject companies and general market or economic conditions. In recent years equity markets have experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on market prices, often unrelated to the operating performance of the specific companies. Such market fluctuations could adversely affect the market price of our investments.

### **Concentration of Investments**

We may participate in a limited number of investments and, as a consequence, our financial results may be substantially adversely affected by the unfavourable performance of a single investment, or sector. Completion of one or more investments may result in a highly concentrated investment by us in a particular company, business, industry or sector.

### **Dependence on Management**

We are dependent upon the efforts, skill and business contacts of key members of management, for among other things, the information and deal flow they generate during the normal course of their activities and the synergies which exist amongst their various fields of expertise and knowledge. Accordingly, our continued success will depend upon the continued service of these individuals who are not obligated to remain employed with us. The loss of the services of any of these individuals could have a material adverse effect on our revenues, net income and cash flows and could harm our ability to maintain or grow our existing assets and raise additional funds in the future.

### **Additional Financing Requirements**

We anticipate ongoing requirements for funds to support our growth and may seek to obtain additional funds for these purposes through public or private equity or debt financing. There are no assurances that additional funding will be available to us at all, on acceptable terms or at an acceptable level. Any additional equity financing may cause shareholders to experience dilution, and any additional debt financing may result in increased interest expense or restrictions on our operations or ability to incur additional debt. Any limitations on our ability to access the capital markets for additional funds could have a material adverse effect on our ability to grow our investment portfolio.

### **No Guaranteed Return**

There is no guarantee that an investment in our securities will earn any positive return in the short term or long term. The task of identifying investment opportunities, monitoring such investments and realizing a significant return is difficult. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize a return on such investments successfully. Our past performance provides no assurance of our future success.

### **Management of our Growth**

Significant growth in our business, as a result of acquisitions or otherwise, could place a strain on our managerial, operational and financial resources and information systems. Future operating results will depend

on the ability of senior management to manage rapidly changing business conditions, and to implement and improve our technical, administrative and financial controls and reporting systems. No assurance can be given that we will succeed in these efforts. The failure to effectively manage and improve these systems could increase our costs, which could have a material adverse effect on us.

### **Due Diligence**

The due diligence process that we undertake in connection with investments may not reveal all facts that may be relevant in connection with an investment. Before making investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence, we may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we rely on the resources available to us, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that we will carry out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the investment being successful.

### **Changes to Tax Laws**

Potential changes to, or interpretations of, tax laws, may negatively impact our business.

### **Non-controlling Interests**

Our investments include debt instruments and equity securities of companies that we do not control. These instruments and securities may be acquired by us in the secondary market or through purchases of securities from the issuer. Any such investment is subject to the risk that the company in which the investment is made may make business, financial or management decisions with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the values of our investments could decrease and our financial condition, results of operations and cash flow could suffer as a result.

### **ADDITIONAL INFORMATION**

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