



**BLACKHAWK RESOURCE CORP.**

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

**FOR THE YEAR ENDED JUNE 30, 2015**

**October 27, 2015**

Management's Discussion and Analysis should be read in conjunction with the consolidated financial statements for the year ended June 30, 2015. 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").

### **NON-IFRS FINANCIAL MEASURES**

This MD&A refers to certain non-IFRS measures, including earnings before interest, taxes, depreciation and amortization ("EBITDA") and net asset value per share ("NAV per share") defined below to assist in assessing the Corporation's financial performance. The terms EBITDA and NAV per share as defined below are financial measures used in this MD&A that are not standard measures under IFRS. The Corporation's method of calculating non-IFRS measures may differ from the methods used by other issuers. Therefore the Corporation's non-IFRS measures may not be comparable to similar measures presented by other issuers.

**NAV per share** is a financial measure that does not have a standardized meaning prescribed by IFRS. NAV per share is calculated as the value of total assets less the value of total liabilities divided by the total number of common shares outstanding as at a specific date.

**EBITDA** refers to earnings determined in accordance with IFRS, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Management believes EBITDA is a useful supplemental measure from which to determine the Corporation's ability to generate cash available for working capital, capital expenditures, income taxes and dividends.

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

### **HIGHLIGHTS**

- Net investment income for the year ended June 30, 2015 was \$624,902.
- Realized gains, gross investment revenue and revenue from oil and gas assets for the year was \$896,554, this does not include the unrealized losses of \$139,340.
- As at June 30, 2015, Blackhawk had \$4,372,045 in working capital.
- As at June 30, 2015, Blackhawk held \$3,881,800 in current investments or 89% of its working capital.
- As at June 30, 2015, NAV per share was \$0.12.
- On June 30, 2015 the Corporation declared its first dividend, this dividend was paid to shareholders on July 15, 2015.

### **ABOUT BLACKHAWK**

During the previous fiscal year, the Corporation received conditional approval of the proposed change of business from an "oil and gas issuer" to an "investment issuer"; the Corporation's primary focus will be to seek returns through investments in the securities of other companies and other assets. Final approval for the change of business was received on December 30, 2014.

During the fiscal year ended June 30, 2015 the Corporation reviewed numerous investment opportunities. The broad investment strategy of the Corporation relies on the expertise, of the management and board, to source and evaluate investment opportunities that will provide above average returns for the shareholders. The goal of this strategy is to develop a portfolio of investments, which is expected to include equity, debt instruments and direct asset investments in certain situations which will continue to provide positive cash

flow returns. The Corporation is not intending to be industry specific, but reviews investment opportunities under the return and risk profile of each.

On June 30, 2015 the Corporation declared its first dividend, which was paid to the shareholders on July 15, 2015. To date the Corporation has paid two dividends and intends to continue to pay quarterly dividends.

On May 27, 2015, the Corporation closed a non-brokered private placement of 19,016,668 common shares at \$0.06 per common share for gross proceeds of \$1,141,000. The Corporation now has 41,196,374 common shares outstanding.

## **PORTFOLIO INVESTMENTS**

As at June 30, 2015, the Corporation held total investments of \$4,368,256 comprised of equity type investments of \$1,941,737, debt type investments of \$2,241,000 and oil and gas assets of \$185,519. In addition the Corporation held a cash balance of \$554,656.

As at June 30, 2015, NAV per share was \$0.12. The June 30, 2015 NAV per share was affected by the issuance of common shares in relation to the non-brokered private placement completed in May, 2015.

### **Investments at fair value by sector consist of the following as at June 30, 2015:**

<b>Sector</b>	<b>Cost</b>	<b>Total fair value</b>	<b>% of total fair value</b>
Construction and real estate	\$211,000	\$183,895	9%
Oil and gas producers	447,817	198,250	10%
Mining	508,540	788,060	41%
Technology and media	689,000	771,532	40%
<b>Total</b>	<b>\$1,856,357</b>	<b>\$1,941,737</b>	<b>100%</b>

### **Current debt instrument investments consist of the following as at June 30, 2015:**

Short term loans	\$1,940,063
<b>Total current investments held to maturity</b>	<b>\$1,940,063</b>

### **Long term debt instrument investments consist of the following as at June 30, 2015:**

Mortgage receivable	\$150,000
Debenture	150,937
<b>Total long term investments held to maturity</b>	<b>\$300,937</b>

### **Oil and gas investments consist of the following as at March 31, 2015:**

Non-Operated properties	\$117,857
GORR	67,662
<b>Total property, plant and equipment</b>	<b>\$185,519</b>

**Investments at fair value by sector consist of the following as at June 30, 2014:**

<b>Sector</b>	<b>Cost</b>	<b>Total fair value</b>	<b>% of total fair value</b>
Construction and real estate	\$175,500	\$203,005	9%
Oil and gas infrastructure	696,363	722,325	32%
Oil and gas services	233,000	234,500	11%
Oil and gas producers	488,096	491,070	22%
Mining	170,000	342,900	15%
Technology and media	251,121	236,000	11%
<b>Total</b>	<b>\$2,014,079</b>	<b>\$2,229,800</b>	<b>100%</b>

**Current debt instrument investments consist of the following as at June 30, 2014:**

Short term loans	\$450,197
Debenture	154,290
<b>Total investments held to maturity</b>	<b>\$604,487</b>

**Long term debt instrument investments consist of the following as at June 30, 2014:**

Mortgage receivable	\$150,000
<b>Total long term investments held to maturity</b>	<b>\$150,000</b>

**Oil and gas investments consist of the following as at June 30, 2014:**

Non-Operated properties	\$159,320
GORR	84,987
<b>Total property, plant and equipment</b>	<b>\$244,307</b>

The amounts at which the investments could be disposed of may differ from their carrying values.

**SELECTED ANNUAL INFORMATION**

	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>
	<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>
Investment and other revenue	\$624,902	\$588,577	\$ -
Net petroleum revenue after royalties	\$132,312	\$801,369	\$831,446
Income (loss) from continuing operations	757,214	646,249	(1,237,164)
Net comprehensive income (loss)	(44,940)	646,249	(1,237,164)
Total Assets	5,291,189	4,903,059	3,927,700
Working capital	4,372,045	3,634,181	3,107,782
<b>Basic and diluted net income (loss) per share</b>			
Net comprehensive income (loss)	(0.00)	0.03	(0.06)

## SELECTED QUARTERLY INFORMATION

	<u>Three month period ended</u>			
	<u>Jun 30,</u> <u>2015</u>	<u>Mar 31,</u> <u>2015</u>	<u>Dec 31,</u> <u>2014</u>	<u>Sep 30,</u> <u>2014</u>
Net revenue	\$681,654	\$320,810	\$(326,385)	\$81,135
Net comprehensive income (loss)	424,121	174,728	(503,618)	(140,171)
Basic and diluted – comprehensive income (loss) per share	0.03	0.01	(0.02)	(0.01)

	<u>Three month period ended</u>			
	<u>Jun 30,</u> <u>2014</u>	<u>Mar 31,</u> <u>2014</u>	<u>Dec 31,</u> <u>2013</u>	<u>Sep 30,</u> <u>2013</u>
Net revenue	\$442,765	\$253,717	\$447,820	\$245,644
Net comprehensive income (loss)	654,301	49,486	(17,120)	(40,418)
Basic and diluted - comprehensive income (loss) per share	0.03	0.00	(0.00)	(0.00)

The above noted financial data should be read in conjunction with the consolidated financial statements for the year ended June 30, 2015.

### RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2015

#### Net investment revenues

For the year ended June 30, 2015, the Corporation recorded \$757,214 (2014 - \$1,773,407) in investment revenue comprised of \$460,734 (2014 - \$57,630) in net realized gains on disposal of investments, \$139,340 (2014 - \$215,731) in net change in unrealized losses (2014 - gains) on investments, \$161,453 (2014 - \$61,362) in interest revenue, \$12,055 (2014 - \$2,789) in dividends, \$130,000 (2014 - \$Nil) in other investment revenue, and \$132,312 (2014 - \$1,435,905) of net oil and gas revenues.

The Corporation's net realized gains on the disposal of investments of \$460,734 for the year is due to the shift in equity investments into the technology and media sectors. The net realized gain is composed of \$549,176 in realized gains from the technology and media sector offset by \$62,942 in realized losses from the oil and gas producers sector and \$25,500 in realized losses from the mining sector.

The Corporation incurred an unrealized loss on investments of \$139,340 in the year ended June 30, 2015 compared to an unrealized gain of \$215,721 in 2014. The unrealized loss for the year is an adjustment to fair market value as at June 30, 2015, and is a non-cash item that will fluctuate with the market each period.

The Corporation earned net oil and gas revenue for the year ending June 30, 2015 of \$132,312, down from \$1,435,905 in the prior year. The decrease in revenue is due to the shift in the corporate business to investments.

#### General and administrative

General and administrative expenses for the year ended June 30, 2015 were \$487,815 compared with \$446,498 for the year ended June 30, 2014. The general and administrative expense for the current year is mainly composed of consulting fees totaling \$302,210 compared to \$294,600 in 2014. General and administrative expense is also composed of office rental fees of \$28,082 (2014 - \$30,700), insurance

expense of \$32,822 (2014 - \$45,209), and computer software and rentals of \$18,669 (2014 - \$22,270). The remaining expense is composed of other general office expenses.

**Net comprehensive income (loss)**

The net comprehensive loss of \$44,940 (\$0.00 per share) for the year ended June 30, 2015 (2014 – net comprehensive income of \$646,249) has decreased from the prior year due to the sale of the Corporation’s Bodo properties in 2014 as it reorganized its assets to be an investment issuer. Non-cash items incurred in the year affecting income are net change in unrealized losses of \$139,340 (2014 – gains of \$215,721), depletion of \$13,082 (2014 - \$231,314) accretion of \$3,237 (2014 - \$7,097), gain on sale of \$25,259 (2014 - \$634,536), impairment of \$17,325 (2014 - \$3,735), revision of decommissioning liabilities of \$13,681 (2014 - \$Nil) and stock based compensation of \$14,173 (2014 - \$51,807).

**Cash flow from operations and EBITDA**

Cash flow from operations for year ended June 30, 2015 was \$130,639 compared to \$89,945 for the prior year. During the year ended June 30, 2015, the Corporation had proceeds from disposition of investments of \$3,668,888 which resulted in a net realized gain of \$460,734 compared to proceeds of \$628,308 in the prior year with a net realized gain of only \$57,630. During the year ended June 30, 2015, the Corporation purchased \$4,545,944 in investments compared to \$3,190,072 in 2014.

The Corporation recorded an EBITDA of \$130,639 for the year ended June 30, 2015 compared to an EBITDA of \$89,945 for 2014. The increase in EBITDA is due in part to the Corporation being an investment issuer for the entire year ended June 30, 2015, as well as the successful investment strategy to shift the equity investments from the resources sectors to the technology and media sectors during the year.

<b>Reconciliation of net income (loss) to EBITDA</b>	<b>Year ended June 30, 2015</b>	<b>Year ended June 30, 2014</b>
Net income (loss)	\$(44,940)	\$646,249
Adjustments to net income (loss):		
Net change in unrealized (gains) losses on investments	139,340	(215,721)
Depletion	13,082	231,314
Gain on sale of property, plant and equipment	(25,259)	(634,536)
Impairment of property, plant and equipment	17,325	3,735
Stock based compensation	14,173	51,807
Accretion	3,237	7,097
Revision of estimates in decommissioning liabilities	13,681	-
<b>EBITDA</b>	<b>\$130,639</b>	<b>\$89,945</b>

**RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD**

**Net investment revenues**

For the three month period ended June 30, 2015, the Corporation recorded \$681,654 (2014 - \$786,042) in investment revenue. Investment revenue is comprised of \$238,459 (2014 - \$57,630) in net realized gains on disposal of investments, \$351,404 (2014 - \$215,721) in net change in unrealized gains on investments, \$63,722 (2014 - \$18,240) in interest revenue, \$228 (2014 - \$Nil) in dividends, \$5,000 (2014 - \$Nil) in other investment revenue and \$22,841 (2014 - \$741,662) of net oil and gas revenues.

The Corporation’s net realized gains on the disposal of investments of \$238,459 for the period is due to the shift in equity investments into the technology and media sectors.

The Corporation's unrealized gain on investments of \$351,404 in the period ended June 30, 2015 is an adjustment to fair market value as at June 30, 2015, and is a non-cash item that will fluctuate with the market each period.

#### **General and administrative**

General and administrative expenses for the three month period ended June 30, 2015 were \$126,604 compared with \$136,572 for the three month period ended June 30, 2014. The expense is mainly composed of consulting fees totaling \$82,860 (2014 - \$97,000), office rental fees of \$4,670 (2014 - \$8,030), and computer software and rentals of \$5,370 (2014 - \$6,675). The remaining expense is composed of other general office expenses.

#### **Net comprehensive income**

The net comprehensive income of \$424,571 (2014 - \$638,197) for the three month period ended June 30, 2015 was mainly due the increase in the Corporation's both realized and unrealized gains on investments. The unrealized gain is a non-cash item that will fluctuate with the market each period.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2015, the Corporation had working capital of \$4,372,045 which compares to working capital of \$3,634,181 at June 30, 2014. On May 27, 2015, the Corporation closed a non-brokered private placement of 19,016,668 common shares at \$0.06 per common share for gross proceeds of \$1,141,000. With the closing of this placement the Corporation has the funds to continue to expand its investment portfolio.

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

#### **Key management compensation**

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

For the year ended June 30, 2015, the Corporation incurred consulting fees of \$231,300 (2014 - \$190,100), and directors fees of \$17,500 (2014 - \$Nil), paid to companies which are controlled by key management of the Corporation, which are included in general and administrative on the consolidated statement of comprehensive income (loss). The Corporation also incurred \$11,083 (2014 - \$30,718) in stock based compensation for options issued to key management. At June 30, 2015, no consulting fees remained outstanding (2014 - \$Nil) and \$3,938 directors fees remained outstanding (2014 - \$Nil).

For the year ended June 30, 2015, the Corporation incurred directors fees of \$9,891 (2014 - \$Nil), paid to companies which are controlled by former key management of the Corporation, which are included in general and administrative on the consolidated statement of comprehensive income (loss). The Corporation also incurred \$3,090 (2014 - \$16,046) in stock based compensation for options issued to former key management. At June 30, 2015, no former directors fees remained outstanding (2014 - \$Nil).

#### **Related party transactions**

During the year ended June 30, 2015, the Corporation incurred legal costs of \$50,411 (2014 - \$31,567) with a law firm in which the Corporate secretary is a Partner. The legal costs incurred were in the normal course of operations and were based on the exchange value of the service provided. Of the legal services provided, \$2,013 was included in trade and other payables at June 30, 2015 (2014 - \$Nil).

### **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 3 of the Corporation's consolidated financial statements for the years ended June 30, 2015 and 2014.

A summary of the Corporation's 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, 2015 and 2014. 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.

## **ACCOUNTING STANDARDS**

### **Adopted accounting standards**

**a)** IAS 32, “Financial Instruments: Presentation” was issued in December 2011 to clarify the current offsetting model and develop common disclosure requirements to enhance the understanding of the potential effects of offsetting arrangements. Amendments to IAS 32 were effective for the Corporation on July 1, 2014. The adoption of the amendments to this standard did not have a material impact on the Corporation’s consolidated financial statements.

**b)** IFRS Interpretations Committee (“IFRIC”) 21 “Levies” – IFRIC clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 was effective for the Corporation beginning on July 1, 2014. The adoption of this standard did not have a material impact on the Corporation’s consolidated financial statements.

### **Future accounting standards**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after July 1, 2015 or later periods. The standards impacted that are applicable to the Corporation are as follows:

**a)** IFRS 9, “Financial Instruments” was issued in November 2009 as the first step in its project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 introduces new requirements for classifying and measuring financial assets. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for impairment and hedge accounting. IFRS 9 is effective for reporting periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of this standard.

**b)** IFRS 15, “Revenue from Contracts with Customers” was issued in May 2014 to replace IAS 18 “Revenue” and IAS 11 “Construction Contracts”, and several revenue related interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options and other common complexities. IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of this standard.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

## **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. At each period end, options outstanding are re-measured for changes in the fair value of the liability.

### **d) 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.

### **e) Fair value of investments in securities not quoted in an active market or private company investments**

Where the fair value 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, judgement is required to establish fair values.

## **Accounting Judgments:**

### **a) Identification of cash generating units**

The classification of the Corporation's oil and gas 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 oil and gas operations.

## FINANCIAL INSTRUMENTS

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

<b>June 30, 2015</b>			
Asset (liability)	Fair value through profit or loss	Loans and receivables at amortized cost	Financial liabilities at amortized cost
Cash and cash equivalents	\$ —	\$554,656	\$ —
Trade and other receivables	—	117,418	—
Due from investments to be settled	—	98,892	—
Investments at fair value	1,941,737	—	—
Investments held to maturity	—	1,940,063	—
Long term investments	—	300,937	—
Trade and other payables	—	—	(168,389)
Due on investments to be settled	—	—	(144,800)
	<b>\$1,941,737</b>	<b>\$3,011,966</b>	<b>\$(313,189)</b>

<b>June 30, 2014</b>			
Asset (liability)	Fair value through profit or loss	Loans and receivables at amortized cost	Financial liabilities at amortized cost
Cash and cash equivalents	\$ —	\$1,375,325	\$ —
Trade and other receivables	—	102,194	—
Investments at fair value	2,229,800	—	—
Investments held to maturity	—	604,487	—
Long term investments	—	150,000	—
Trade and other payables	—	—	(190,141)
Due on investments to be settled	—	—	(684,430)
	<b>\$2,229,800</b>	<b>\$2,232,006</b>	<b>\$(874,571)</b>

The carrying value of the Corporation's financial instruments, excluding investments at fair value and investments held to maturity, approximate their fair value due to the short term nature of these instruments.

### Investments at fair value and financial instruments hierarchy:

#### Financial hierarchy:

The 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).

Investments by sector consist of the following as at June 30, 2015:

Sector	Cost	Level 1	Level 2	Level 3	Total fair value	% of total fair value
Construction and real estate	\$211,000	\$166,000	\$17,895	\$ –	\$183,895	9%
Oil and gas producers	447,817	130,950	67,300	–	198,250	10%
Mining	508,540	542,460	245,600	–	788,060	41%
Technology and other	689,000	541,839	179,558	50,135	771,532	40%
<b>Total</b>	<b>\$1,856,357</b>	<b>\$1,381,249</b>	<b>\$510,353</b>	<b>\$50,135</b>	<b>\$1,941,737</b>	<b>100%</b>

Investments by sector consist of the following as at June 30, 2014:

Sector	Cost	Level 1	Level 2	Level 3	Total fair value	% of total fair value
Construction and real estate	\$175,500	\$155,500	\$47,505	\$ –	\$203,005	9%
Oil and gas infrastructure	696,363	722,325	–	–	722,325	32%
Oil and gas services	233,000	234,500	–	–	234,500	11%
Oil and gas producers	488,096	491,070	–	–	491,070	22%
Mining	170,000	255,000	87,900	–	342,900	15%
Technology and other	251,121	236,000	–	–	236,000	11%
<b>Total</b>	<b>\$2,014,079</b>	<b>\$2,094,395</b>	<b>\$135,405</b>	<b>\$ –</b>	<b>\$2,229,800</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 debenture approved for conversion to shares subsequent to year end, level 3 instruments include common shares and warrants 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 \$26,421 (2014 - \$45,945) change in the value of the investment.

The fair value of the common shares included in level 3 of \$50,000 (2014 – \$Nil) was determined to be cost and has therefore not been adjusted for any market inputs. The common shares began trading in the public market on July 14, 2015 with a fair value of \$66,667.

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.

As at June 30, 2015, \$98,892 (2014 - \$Nil) was due and outstanding from investments that the Corporation had sold but not settled as of yearend. Subsequent to year end the full amount has been received.

As at June 30, 2015, \$144,800 (2014 - \$684,430) was due and outstanding on investments that had been purchased but not settled as of yearend. Subsequent to year end the full amount has been settled.

**Investments held to maturity consist of the following:**

	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Short term loans	\$1,940,063	\$450,197
Debenture	–	154,290
<b>Total investments held to maturity</b>	<b>\$1,940,063</b>	<b>\$604,487</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 2 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 18% (2014 – 19%).

**DISCLOSURE OF OUTSTANDING SHARE DATA**

**Authorized and Issued Share Capital**

<b>Class</b>	<b>Par Value</b>	<b>Authorized</b>	<b>Issued</b>
Common	Nil	Unlimited	41,196,374
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	866,666	\$0.30	December 7, 2016	N/A
Options	600,000	\$0.10	December 18, 2018	N/A
Options	300,000	\$0.10	February 27, 2019	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 the 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).