FOX RESOURCES LTD.

(*An Exploration Stage Company*)

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

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The following management's discussion and analysis ("MD&A") is prepared as at November 4, 2011 and should be read in conjunction with the unaudited condensed interim financial statements for the nine months ended September 30, 2011 and the related notes, which are prepared in accordance with International Financial Reporting Standards ("IFRS") and the audited financial statements for the year ended December 31, 2010 and related notes, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Annual references are to the Company's fiscal years, which end on December 31. All amounts are expressed in Canadian Dollars unless otherwise noted. Additional information regarding the Company is available on SEDAR at www.sedar.com.

OVERVIEW OF THE BUSINESS

Fox Resources Ltd. (the "Company") was incorporated under the *Canada Business Corporations Act* on February 3, 2006 and, effective July 6, 2009, changed its continuance out of the Federal Jurisdiction into the British Columbia jurisdiction under the *Business Corporations Act* (British Columbia). The Company was classified as a Capital Pool Company ("CPC") as defined in the TSX Venture Exchange (the "TSX-V" or "Exchange") Listings Policy 2.4. The Company completed an initial public offering ("IPO") and commenced trading on the TSX-V on May 5, 2006.

On June 2, 2008, the Company announced that for its qualifying transaction ("QT"), it entered into an option agreement on the Otter Gold Property in Princeton, British Columbia dated May 27, 2008 and on August 18, 2008, the Company received final approval from the Exchange for the QT, the related private placements totalling $390,000 and the name change, and its common shares resumed trading under its current name and new trading symbol "FAX" commencing on August 19, 2008.

On August 18, 2009, the Company paid $5,000 to the optionor to amend its option agreement and postpone the first anniversary commitments of paying $50,000 in cash, issuing 75,000 common shares and incurring $200,000 exploration expenditures until December 31, 2009. Upon receipt and analysis of the assay results from the 2009 follow-up program, the management decided to drop the Otter Gold Property and wrote off the entire amount as of December 31, 2009.

On August 3, 2011, the Company signed a letter of intent to acquire all of the issued and outstanding membership interests of in Big Sky Operating LLC. ("Big Sky") (the "Acquisition"). Big Sky, a Montana limited liability company, is the legal and beneficial owner of certain oil and gas interests comprising approximately 100,000 net acres in Toole and Glacier counties, Montana, USA, of which Big Sky has a 33.3% working interest. In connection with the acquisition of Big Sky, the Company will undertake a concurrent private placement to raise minimum gross proceeds of $8,500,000. The funds will be used to fund the development of Big Sky's property interests, retire a US$4 million debt of Big Sky as well as provide the required working capital to Big Sky to fund the oil exploration in Montana through 2011-2012.

The Company will issue 27 million shares to the members of Big Sky and 1,350,000 common shares to the lenders of Big Sky, subject to applicable Exchange escrow requirements and applicable hold periods pursuant to securities legislation.

Big Sky is an oil and gas exploration and development company based in Billings, Montana. Big Sky is focused primarily on the exploration and development of oil and gas in the Alberta Basin, commonly referred to as the Bakken source system. Since its organization, Big Sky has amassed a vast geological library identifying Bakken source system members. Accordingly, all leases acquired by Big Sky have been selected based on the analysis of geological data accumulated over the past several years. Big Sky's success in acquiring its leasehold interests has resulted in Big Sky becoming a significant player in the Montana Alberta Basin's emerging Bakken play. Other oil and gas companies active in Montana include Quick Silver Resources, Rosetta Resources, Newfield Exploration and Crescent Point Energy.

The Company and Big Sky are arm's length parties. The acquisition of Big Sky and its oil and gas interests and the changes in management of the Company will constitute a reverse take-over pursuant to the policies of the TSX-V and will therefore be subject to certain approvals, including TSX-V and shareholder approval of the Acquisition. The Company will also change its name from "Fox Resources Ltd." to "Big Sky Petroleum Corporation" to better identify itself in the oil and gas industry.

On October 3, 2011, the Company announced that it completed a $9,000,000 non-brokered private placement of subscription receipts ("Subscription Receipts") at a price of $0.35 per Subscription Receipt for a total of 25,714,285 Subscription Receipts (the "Financing"). Each Subscription Receipt issued will be deemed to be exchanged upon certain release conditions (the "Release Conditions") being met, without payment of any additional consideration, for one common share of the Company and one common share purchase warrant (together known as a "Unit"). Each warrant entitles the holder to acquire one additional common share until September 30, 2013 at a price of $0.66 for the first year and $0.80 in the second year.

Upon the Release Conditions being met, the following finder's fees will be paid: (a) finder's warrants, entitling the holder to purchase up to 1,830,070 Units for a period of 24 months from issue at $0.35 per Unit; (b) cash finder's fee of $412,420; and (c) 285,713 Units in lieu of $100,000 cash finder's fee.

All securities issued are subject to a four-month hold period expiring on February 1, 2012. Insider participation was for 6,499,171 Units or approximately $2,275,000.

The Release Conditions will include (i) the satisfaction of all of the conditions to the Acquisition, and (ii) receipt of the TSX-V conditional approval of the Acquisition and the Financing. The gross proceeds received from the Financing have been deposited into escrow, with such escrowed funds to be released immediately after all of the Release Conditions are met. If the Release Conditions have not been satisfied before November 30, 2011, such escrowed funds plus interest will be returned *pro rata* to each holder of the Subscription Receipts.

On October 19, 2011, the Company signed a Share Purchase Agreement with Big Sky.

SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended December 31, 2010 (Restated)	**Year ended December 31, 2009**	**Year ended December 31, 2008**
	Under IFRS	Under GAAP	Under GAAP
	$	$	$
Total revenues	2,078	2,102	6,903
General and administrative expenses	85,787	88,211	124,137
Loss for the period	(84,024)	(264,923)	(111,126)
Loss per share	(0.03)	(0.08)	(0.05)
Total assets	227,512	319,335	676,392
Total long-term financial liabilities	-	-	-
Cash dividends declared – per share	N/A	N/A	N/A

SELECTED QUARTERLY FINANCIAL INFORMATION

The selected financial information provided below is derived from the unaudited quarterly financial statements for each of the last eight quarters:

	Sep 30, 2011 Quarter	Jun 30, 2011 Quarter	Mar 31, 2011 Quarter	Dec 31, 2010 Quarter (Restated)	Sep 30, 2010 Quarter (Restated)	Jun 30, 2010 Quarter (Restated)	Mar 31, 2010 Quarter (Restated)	Dec 31, 2009 Quarter
	Under IFRS							Under GAAP
Revenue	$5,746	$3,040	$ 685	$ 684	$ 649	$ 364	$ 381	$ 413
Net (loss)	(61,490)	(25,182)	(17,834)	(18,894)	(12,360)	(17,895)	(34,875)	(258,009)
(Loss) per share	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.01)	$ (0.01)	$ (0.08)

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures, and therefore liquidity and capital resources, vary substantially from period to period depending on the business undertaken at any one time.

RESULTS OF OPERATIONS

For the three months ended September 30, 2011 compared to the three months ended September30, 2010

During the three months ended September 30, 2011, the Company incurred a net loss of $61,490 ($0.01 loss per share) compared to a net loss of $12,360 ($0.00 loss per share) for the three months ended September 30, 2010. The difference was mainly due to:

a. Transaction cost of $31,513 (2010 - $nil) and accounting, legal and consulting fee of $46,157 (2010 - $8,210) as a result of the acquisition of Big Sky.
b. Foreign exchange gain of $16,026 (2010 – foreign exchange loss of $284) resulting from the fluctuations between the US dollars and Canadian dollars.
c. Investor relations of $1,134 (2010 - $nil) as a result of increased shareholders' communication regarding the acquisition of Big Sky and the financing.

The only revenue recorded during the three months ended September 30, 2011 was interest income of $5,745 (2010 - $649) as the Company received interest income from the $9 million financing.

For the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010

During the nine months ended September 30, 2011, the Company incurred a net loss of $104,506 ($0.02 loss per share) compared to a net loss of $65,130 ($0.02 loss per share) for the nine months ended September 30, 2010. The difference was mainly due to:

a. Transaction cost of $31,513 (2010 - $nil) and accounting, legal and consulting fee of $74,485 (2010 - $26,839) as a result of the acquisition of Big Sky.

b. Foreign exchange gain of $16,265 (2010 – $193) resulting from the fluctuations between the US dollars and Canadian dollars.
c. Investor relations of $2,249 (2010 - $537) as a result of increased shareholders' communication regarding the acquisition of Big Sky and the financing.

While being offset by:

a. Property investigation decrease to $nil (2010 - $15,544) due to in 2010 the Company looked for property in Mexico.

CASH FLOW, LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital as at September 30, 2011 was $10,015,070 (December 31, 2010 - $215,586). Cash totalled $10,037,377 as at September 30, 2011, an increase of $9,811,189 from $226,188 as at December 31, 2010. Cash is made up of cash and cash equivalents of $1,037,377 and cash held in trust of $9,000,000 from the September 2011 financing (see "Overview of the Business"). The Company received $15,000 from the exercise of 50,000 options at $0.30; $936,000 from the April 2011 non-brokered private placement of 3,120,000 units at $0.30; and $9 million from the September 2011 non-brokered private placement of 25,714,285 subscription receipts at $0.35. The funds were offset by the net operating expenses of $92,801 during the period ended September 30, 2011.

As of the date of this MD&A, the Company has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants. The Company completed a financing in April 2011 (see "Outstanding Share Data") and has sufficient working capital at this time to meet its ongoing financial obligations.

The Company is aware of the current conditions in the financial markets and has planned accordingly. The Company is focused to use the current treasury to acquire new properties and develop an exploration program for such properties. If market conditions prevail or improve, the Company will make adjustments to budgets accordingly.

OUTSTANDING SHARE DATA

Shares, options and warrants

	September 30, 2011	**December 31, 2010**
Common shares issued and outstanding	6,326,667	3,156,667
Options outstanding	173,333	223,333

On April 26, 2011, the Company announced that it closed the non-brokered private placement of 3,120,000 units (the "Unit") at $0.30 per Unit for gross proceeds of $936,000. Each Unit comprised of one common share and one-half of one non-transferable warrant. Each whole warrant entitled the holder to purchase one additional common share for a period of 18 months at a price of $0.45 per common share. In addition, Finder's Warrants, entitling the holder to purchase up to 198,000 Units for a period of 18 months from issuance at $0.30 per Unit and cash finder's fees of $41,580 were paid. All securities issued are subject to a four-month hold period expiring on August 26, 2011. Insider participation amounts to 220,000 units. Other share issue costs amounted to $5,430.

On January 4, 2011, 50,000 stock options were exercised at $0.30.

The Company has established a stock option plan that is administered by the Board of Directors of the Company with stock options granted to directors, management, employees, management company employees, agents and consultants. The number of common shares reserved for issuance of stock options is limited to a maximum of 10% of the total number of issued and outstanding shares.

Stock option transaction and the number of stock options are summarized as follows:

Expiry date	Exercise Price	December 31, 2010	Issued	Exercised	Expired/ cancelled	September 30, 2011
April 28, 2011	$ 0.30	50,000	-	(50,000)	-	-
May 21, 2013	$ 0.30	123,333	-	-	-	123,333
August 18, 2013	$ 0.30	50,000	-	-	-	50,000
Options outstanding		223,333	-	(50,000)	-	173,333
Options exercisable		223,333	-	(50,000)	-	173,333
Weighted average exercise price		$ 0.30	-	$ 0.30	-	$ 0.30

The continuity of warrants for the period ended September 30, 2011 is as follows:

Expiry date	Exercise price	December 31, 2010	Issued	Exercised	Expired/ Cancelled	September 30, 2011
October 25, 2012	$ 0.45	-	1,560,000	-	-	1,560,000
Warrants outstanding		-	1,560,000	-	-	1,560,000
Weighted average exercise price		-	$ 0.45	-	-	$ 0.45

The continuity of finder’s unit warrants for the period ended September 30, 2011 is as follows:

Expiry date	Exercise price	December 31, 2010	Issued	Exercised	Expired/ Cancelled	September 30, 2011
October 25, 2012	$ 0.30	-	198,000	-	-	198,000
Finder's unit warrants outstanding		-	198,000	-	-	198,000
Weighted average exercise price		-	$ 0.30	-	-	$ 0.30

Not including the shares, options, warrants, finder’s unit warrants to be issued in relation to the acquisition of Big Sky and the concurrent financing, if the remaining options, warrants, finder’s unit warrants, including the warrants associated with the finder’s unit warrants, were exercised, the Company’s available cash would increase by $857,950.

As of the date of this MD&A, there were 6,326,667 common shares issued and outstanding and 8,357,000 shares outstanding on a diluted basis excluding the shares, options, warrants, finder’s unit warrants associated with the acquisition of Big Sky and the concurrent financing.

RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

For the nine months ended September 30, 2011

	Short-term employee benefits	Post - employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Mark T. Brown, Chief Executive Officer	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil
Winnie Wong, Chief Financial Officer	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil

For the nine months ended September 30, 2010

	Short-term employee benefits	Post - employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total
Mark T. Brown, Chief Executive Officer	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil
Winnie Wong, Chief Financial Officer	$Nil	$Nil	$Nil	$Nil	$Nil	$Nil

Related party assets / liabilities

	Services	Nine months ended September 30		As at September 30, 2011	As at December 31, 2010
		2011	2010		
Amounts due to:					
Pacific Opportunity Capital Ltd. [a]	Rent, accounting and consulting services	$71,000	$27,000	$28,560	$3,360
TOTAL:				$28,560	$3,360
Amounts due from:					
Nil					

(a) Pacific Opportunity Capital Ltd., a company controlled by the Chief Executive Officer of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

RISK FACTORS

Upon the acquisition of Big Sky, the Company will be engaged in the acquisition and exploration of oil and gas properties. These activities involve significant risks which even with careful evaluation, experience and knowledge may not, in some cases, be eliminated. The Company's success depends on a number of factors, many of which are beyond its control. The primary risk factors affecting the Company include inherent risks in the oil and gas industry and oil and gas price fluctuations.

General Conditions Relating to Oil Exploration and Production Operations

The Company's operations are subject to all the risks normally incident to the exploration for and production of oil including geological risks, operating risks, political risks, development risks, marketing risks, and logistical risks.

Exploration, Development and Production Risks

Oil and gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Company's long term commercial success depends on the Company's ability to find, acquire, develop and commercially produce oil reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to explore and develop any properties the Company may have from time to time, but also on the Company's ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation.

Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil will be discovered or acquired by us.

Future oil exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company may not fully insured against all of these risks, nor are all such risks insurable. Although the Company anticipates maintaining liability insurance in an amount that the Company considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon the Company's financial condition.

Oil production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Environmental

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil operations.

The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. Although the Company believes that Big Sky is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company’s financial condition, results of operations or prospects.

Prices, Markets and Marketing

The marketability and price of oil that may be acquired or discovered by the Company will be affected by numerous factors beyond the Company’s control. The Company’s ability to market may depend upon its ability to acquire space on pipelines that deliver to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of the Company’s reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and many other aspects of the oil business.

Producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance. Oil prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of the Company’s net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of the Company’s reserves. The Company might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Company’s net production revenue causing a reduction in acquisition, development and exploration activities.

Availability of Drilling Equipment and Access

Oil exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. To the extent the Company is not the operator of Big Sky’s oil properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Competition

The petroleum industry is competitive in all its phases. The Company will compete with numerous other participants in the search for, and the acquisition of, oil properties and in the marketing of oil. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than the Company. The Company's ability to increase reserves in the future will depend not only on the Company's ability to explore and develop Big Sky's present properties, but also on the Company's ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and include price and methods and reliability of delivery.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil reserves and cash flows to be derived therefrom, including many factors beyond the Company's control. In general, estimates of economically recoverable oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves. Any recovery and reserves estimates on the properties are estimates only. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

There is no assurance that any forecast price and cost assumptions contained in a reserve report will be attained and variances could be material. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil, curtailments or increases in consumption by oil purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. Reserves data is therefore based on judgments regarding future events therefore, actual results will vary and variations may be material.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Company's claim which could result in a reduction of any revenue to be received by the Company.

Title Issues

The Company has investigated the rights to explore the various oil properties Big Sky holds or proposes to participate in and, to the best of its knowledge, those rights are in good standing. However, no assurance can be given that applicable governments will not revoke, or significantly alter the conditions of, the applicable exploration and development authorizations and that such exploration and development authorizations will not be challenged or impugned by third parties. There is no certainty that such rights or additional rights applied for will be granted or renewed on terms satisfactory to the Company. There can be no assurance that claims by third parties against Big Sky will not be asserted at a future date.

Regulatory

Oil operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Company's operations may require licenses from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at any of the Company's projects.

Foreign Currency Rate Risk

A significant amount of the Company's activities will be transacted in or referenced to US dollars. The Company's operating costs and certain of the Company's payments in order to maintain property interests are to be in the local currency of the jurisdiction where the applicable property is located. As a result, fluctuations in the US dollar against the Canadian dollar could result in unanticipated fluctuations in the Company's financial results which are denominated in Canadian dollars. The Company does not manage its exposure to fluctuations in the US dollar to exchange rates.

Multi-jurisdictional Legal Risks

The Company is incorporated under the laws of the Province of British Columbia, Canada, and all of the current directors and all of its current officers are residents of Canada. Consequently, it may be difficult for United States investors to effect service of process within the United States upon the Company or upon those directors or officers, who are not residents of the United States, or to realize in the United States upon judgments of United States courts. Furthermore, it may be difficult for investors to enforce judgments of the U.S. courts based on civil liability provisions of the U.S. federal securities laws in a Canadian court against the Company or any of the Company's non-U.S. resident executive officers or directors. There is substantial doubt whether an original lawsuit could be brought successfully in Canada against any of such persons or the Company predicated solely upon such civil liabilities.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil reserves in the future. If the Company's revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The Company's inability to access sufficient capital for operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Additional Funding Requirements

The cash flow from the Company's operations may not be sufficient to fund the Company's ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause us to forfeit Big Sky's interest in certain properties, miss certain acquisition opportunities and reduce or terminate the Company's operations. If the revenues from the Company's operations decrease as a result of lower oil prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace the Company's reserves or to maintain the Company's production. If the Company's cash flow from operations is not sufficient to satisfy capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to the Company.

Issuance of Debt

From time to time the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. The Company's articles will not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time the Company may enter into agreements to receive fixed prices on the Company's oil production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. Similarly, from time to time the Company may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Company will not benefit from the fluctuating exchange rate.

Reliance on Key Personnel

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company will not have key person insurance in effect for management. The contributions of these individuals to the Company's immediate operations are likely to be of central importance. In addition, the competition for qualified personnel in the oil industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of the Company's business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the Company's management.

Conflicts of Interest

Certain of the Company's directors are also directors of other oil companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the *Business Corporations Act* (British Columbia).

Insurance

The Company involvement in the exploration for and development of oil properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Any insurance obtained in accordance with industry standards to address certain of these risks has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Company may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Critical judgments

The Company does not have any critical judgments as of September 30, 2011.

Estimates

- the recoverability of receivables which are included in the condensed interim statement of financial position;
- the inputs used in accounting for share purchase option expense in the condensed interim statement of comprehensive loss; and
- the provision for income taxes which is included in the statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed interim statement of financial position at September 30, 2011.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair values of the Company's cash and cash equivalents and accounts payable are determined based on Level 1 inputs, and approximate their carrying values due to the short-term maturity of these instruments.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and interest risk.

(a) Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial asset exposed to credit risk is cash and cash equivalents, which is minimized to the extent that it is placed with a major Canadian financial institution.

(b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

As at September 30, 2011, the Company had a cash and cash equivalent balance of $1,037,377 (December 31, 2010 - $226,188) and cash held in trust of $9,000,000 (December 31, 2010 - $nil) to settle down current liabilities of $30,173 (December 31, 2010 - $11,926).

Accounts payable and accrued liabilities are due within the current operating period.

(c) Interest rate risk

Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash and cash equivalents earn interest from its operating bank accounts, bearing interest of 1.25% per annum. Due to the nature of this financial instrument, fluctuations in market rates do not have a significant impact on net loss as of September 30, 2011. Future cash flows from interest income on cash will be affected by interest rate fluctuations. A 1% change in the interest rate, with other variables unchanged, would affect net loss by an annualized amount of interest equal to approximately $100,374.

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).
The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

		Level 1		Level 2		Level 3		Total
Assets:								
Cash and cash equivalents	$	1,037,377	$	-	$	-	$	1,037,377
Cash held in trust		9,000,000		-		-		9,000,000
	$	10,037,377	$	-	$	-	$	10,037,377

CHANGES IN ACCOUNTING POLICIES INCLUDING INITAL ADOPTION

Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011.

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending December 31, 2011. Previously, the Company prepared its annual and interim financial statements in accordance with GAAP.

Transition to International Financial Reporting Standards

As stated in Note 2 of the condensed interim financial statements, these are the Company's first condensed interim financial statements are for the period covered by its first annual financial statements prepared in accordance with IFRS.

The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1). The first date at which IFRS was applied was January 1, 2010 ("Transition Date"). IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS.

IFRS 1 requires that the same policies are applied for all periods presented in the first IFRS financial statements and that those policies comply with IFRSs in effect as at the end of the first IFRS annual reporting period. Accordingly, the opening IFRS statement of financial position, 2010 comparatives and current period financial statements have been prepared using the same policies. The previously presented 2010 Canadian GAAP financial information has been reconciled to the IFRS information as part of this transition note in accordance with the requirements of IFRS 1. Further, the policies applied have been done so on a full retrospective basis unless an alternative treatment is permitted or required by an IFRS 1 election or exception. These are discussed below.

Elections upon first-time adoption of IFRS

The IFRS 1 exemptions applied by the Company in the conversion from Canadian GAAP to IFRS are as follows:

(a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 (2008) *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 (2008) to only those business combinations that occurred on or after the Transition Date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company's statement of financial position as at the Transition Date.

(b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to the Transition Date.

(c) IAS 27 – Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

Mandatory exceptions under IFRS

The IFRS 1 mandatory exception applied by the Company in the conversion from Canadian GAAP to IFRS is as follows:

(d) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company's IFRS estimates as at the Transition Date are consistent with its Canadian GAAP estimates as at that date.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive income for prior periods presented under Canadian GAAP to IFRSs as of the same date. In addition, an explanation is required for any material adjustments to cash flows to the extent that they exist. The analysis which follows represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

(e) Reclassification within Equity section

Under Canadian GAAP, a balance within contributed surplus existed to record the issuance of equity settled employee benefits. Upon adoption of IFRS, the balance in this account has been reclassified to "Reserves – Equity settled employee benefits".

(f) Flow-through shares

Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP the Company accounted for the issue of flow-through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146, Flow-Through Shares. At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a future income tax liability with a charge directly to shareholders' equity. Also under Canadian GAAP the Company recorded any deferred tax recovery eligible to be recognized to offset the deferred tax charge to equity as a tax recovery in the statement of operations. During fiscal 2009, the Company renounced qualifying expenditures and as a result recorded a charge to equity and corresponding income tax recovery in income in the amount of $45,000.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is credited to other liabilities and recognized in income at the time the qualifying expenditures are made.

The Company's 2008 flow-through shares were issued at a $0.10 premium per flow-through share. Under Canadian GAAP, this $0.10 premium was recognized as the future income tax recovery in fiscal 2009. Under IFRS, this $0.10 premium would have been recognized as income in fiscal 2009. Consequently, the reclassification between future income tax recovery and income during fiscal 2009 would have no impact to the Statement of Financial Position or to the balance of the Deficit or related reserves as at the Transition Date and December 31, 2010.

FUTURE ACCOUNTING PRONOUNCEMENT

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2011 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

- Amendments to IFRS 1 *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* - effective for accounting periods commencing on or after July 1, 2010;
- IAS 24, *Related Party Disclosure* - effective for accounting periods commencing on or after January 1, 2011;
- IFRS 9, *Financial Instruments* - effective for accounting periods commencing on or after January 1, 2013;
- Amendments to IAS 32, *Financial Instruments: Presentation – Classification of Right Issues* - effective for accounting periods commencing on or after February 1, 2010;
- Amendments to IFRIC 14 – *Prepayments of a Minimum Funding Requirement* - effective for accounting periods commencing on or after January 1, 2011;
- IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* - effective for accounting periods commencing on or after July 1, 2010;
- Amendments to IFRS 7 *Financial Instruments: Disclosure from May 2010 Annual Improvements to IFRSs* – effective for annual periods beginning on or after January 1, 2011;
- Amendments to IFRS 7 *Financial Instruments: Disclosure for amendments enhancing disclosures about transfers of financial assets* – effective for annual periods beginning on or after July 1, 2011; and
- Amendments to IAS 12 *Income Taxes: Limited scope amendment (recovery of underlying assets)* – effective for annual periods beginning on or after January 1, 2012.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Changes in Internal Control over Financial Reporting (“ICFR”)

No changes occurred in the current period of the Company’s ICFR that have materially affected, or are reasonable likely to materially affect, the Company’s ICFR.

OUTLOOK

The Company is reviewing various potential exploration properties. It has sufficient funds to achieve acquiring these exploration properties, develop exploration programs and meet future working capital requirement. The Company intends to seek out additional financings in the future.

FORWARD-LOOKING STATEMENTS

Certain information regarding the Company as set forth in the MD&A, including management’s assessment of the Company’s future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuation, imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of qualified personnel or management, stock market volatility and the ability to access sufficient capital from external or internal sources. The actual results, performance or achievement could materially differ from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them does, what benefits the Company will derive there from.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- The Company’s adequate working capital to fund its expected operating costs through 2011; and
- The Company’s acquisition of Big Sky and its concurrent Subscription Receipts financing.