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BIG SKY PETROLEUM CORPORATION
(formerly Fox Resources Ltd.)
(An Exploration Stage Company)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

INTRODUCTION

This is Management's Discussion and Analysis ("MD&A") for Big Sky Petroleum Corporation ("Big Sky" or the "Company") (formerly Fox Resources Ltd.) and has been prepared based on information known to management as of April 27, 2012. This MD&A is intended to help the reader understand the consolidated financial statements of Big Sky.

The following information should be read in conjunction with our audited consolidated financial statements as at December 31, 2011, and related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A provides a review of the performance of the Company for the year ended December 31, 2011. Additional information relating to the Company can be found on SEDAR www.sedar.com.

Management is responsible for the preparation and integrity of the consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management also ensures that information used internally or disclosed externally, including the consolidated financial statements and MD&A, is complete and reliable.

The Company's board of directors follows recommended corporate-governance guidelines for public companies to ensure transparency and accountability to shareholders. The board's audit committee meets with management regularly to review the consolidated financial statements, including the MD&A, and to discuss other financial, operating and internal-control matters.

All currency amounts are expressed in US dollars unless otherwise noted.

FORWARD LOOKING STATEMENTS

Certain sections of this MD&A provide, or may appear to provide, a forward-looking orientation with respect to the Company's activities and its future financial results. Consequently, certain statements contained in this MD&A constitute express or implied forward-looking statements. Terms including, but not limited to, "anticipate", "estimate", "believe" and "expect" may identify forward-looking statements. Forward-looking statements, while they are based on the current knowledge and assumptions of the Company's management, are subject to risks and uncertainties that could cause or contribute to the actual results being materially different than those expressed or implied. Readers are cautioned not to place undue reliance on any forward-looking statement that may be in this MD&A.

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The following forward looking statements have been made in this MD&A:

- Plans for exploration of the Company's oil and gas properties;
- Speculation on future commodity prices;
- Future budgets and how long the Company expects its working capital to last;
- Management expectations of future activities and results;
- The Company's adoption of International Financial Reporting Standards ("IFRS").

ADDITIONAL INFORMATION

Financial statements, MD&A's and additional information relevant to the Company and the Company's activities can be found on SEDAR at www.sedar.com, and/or on the Company's website at www.bspcorp.com.

SUMMARY AND OUTLOOK

On September 30, 2011, Fox Resources Ltd. ("Fox") entered a Share Exchange Agreement ("the Agreement") with Big Sky Operating LLC ("BSO") to acquire 100% interest in BSO (the "Acquisition"). On November 30, 2011, upon the approval of the Acquisition by the shareholders of Fox, the members of BSO and the TSX Venture Exchange ("Exchange"), Fox issued 27,000,000 common shares to the members of BSO. The combined company continued under the name "Big Sky Petroleum Corporation" effective December 1, 2011.

In addition, Fox issued 1,350,000 common shares to the lenders of BSO in conjunction with retiring the $4 million loan and the related interest of $418,209 using the proceeds from the Cdn$9 million private placement that occurred in conjunction to the Acquisition.

Fox is the legal parent of BSO. However, as a result of the share exchange described above, control of the combined companies passed to the former shareholders of BSO, resulting in a "reverse take-over". A reverse take-over involving a non-public enterprise and a non-operating public enterprise is a capital transaction in substance, rather than a business combination. That is, the transaction is equivalent to the issuance of shares by BSO (legal subsidiary, accounting parent) for the net assets of Fox (legal parent, accounting subsidiary), accompanied by a recapitalization of BSO. As a result, the comparative financial statements of the Company are of BSO's.

Effective December 5, 2011, the Company began trading under the symbol "BSP" on the Exchange as a tier 2 oil and gas company.

Big Sky is an oil and gas exploration and development company based in Billings, Montana, with its main focus primarily on the exploration and development of oil and gas in the Alberta Basin, commonly referred to as the Bakken source system. Big Sky owns a 33.333% working interest in approximately 100,000 net acres in Toole and Glacier counties, Montana.

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Management's overall expectations for the Company are positive, due in part to the following factors:

- Big Sky is highly experienced in the Alberta Basin and the Bakken source system.
- The Company continues to have great success in its well drilling.
- The joint interest partners provide plenty of labour and equipment resources in a very competitive and tight supply market.

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1. Background

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 has been listed on the TSX Venture Exchange (the "TSX-V" or "Exchange") since May 5, 2006. Its shares began trading under the symbol "BSP" effective December 5, 2011.

2. Overview

2(a) Company Mission and Focus

Big Sky is a North American oil and gas company focused in the Alberta Basin, particularly the Bakken source system. The Company's mission is to explore and develop its oil and gas interest in its 33.333% working interest in approximately 100,000 net acres in Toole and Glacier counties in Montana as well as potentially growing its working interest in the area.

2(b) Non-GAAP Measures

This MD&A might include references to financial measures commonly used in the oil and natural gas industry such as the terms "field netback" (production sales and processing revenue less royalties, turnover taxes and operating expense) and "funds flow from operations" (cash generated from operating activities before changes in refundable tax, non-cash working capital and translation adjustment on operating items). These non-GAAP measures do not have any standardized meaning under IFRS or previous GAAP and may not be comparable with similar measures presented by other companies.

2(c) BOE Presentation

Production information is commonly reported in units of barrels of oil equivalent (boe). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet (mcf) to one barrel (bbl). This conversion ratio of 6:1 represents energy equivalency, which is primarily applicable at the burner tip, and does not represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation.

2(d) Statement of Risk

The accuracy of reserve and economic evaluations is always subject to uncertainty. The magnitude of this uncertainty is generally proportional to the quantity and quality of data available for analysis. As a well matures and new information becomes available, revisions may be required which may either increase or decrease the previous reserve assignments. Sometimes these revisions may result not only in a significant change to the reserves and value assigned to a property, but also may impact the total company reserve and economic status. The reserves and forecasts contained in the NI 51-101 report and the extracts in this MD&A were based upon a technical analysis of the available data using accepted engineering principles. However, they must be accepted with the understanding that further information and future reservoir performance subsequent to the date of the estimate may justify their revision. The Company and MHA make no warranties concerning the data and interpretations of such data. In no event shall the Company and MHA be liable for any special or consequential damages arising from the Company's or investors' and shareholders' use of MHA's interpretation, reports, or services produced as a result of MHA's work for the Company.

3. Oil and Gas Properties

Big Sky was formed for the purpose of acquiring oil and gas exploration opportunities, drilling and completing wells and acquiring oil and gas production with primary focus 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.

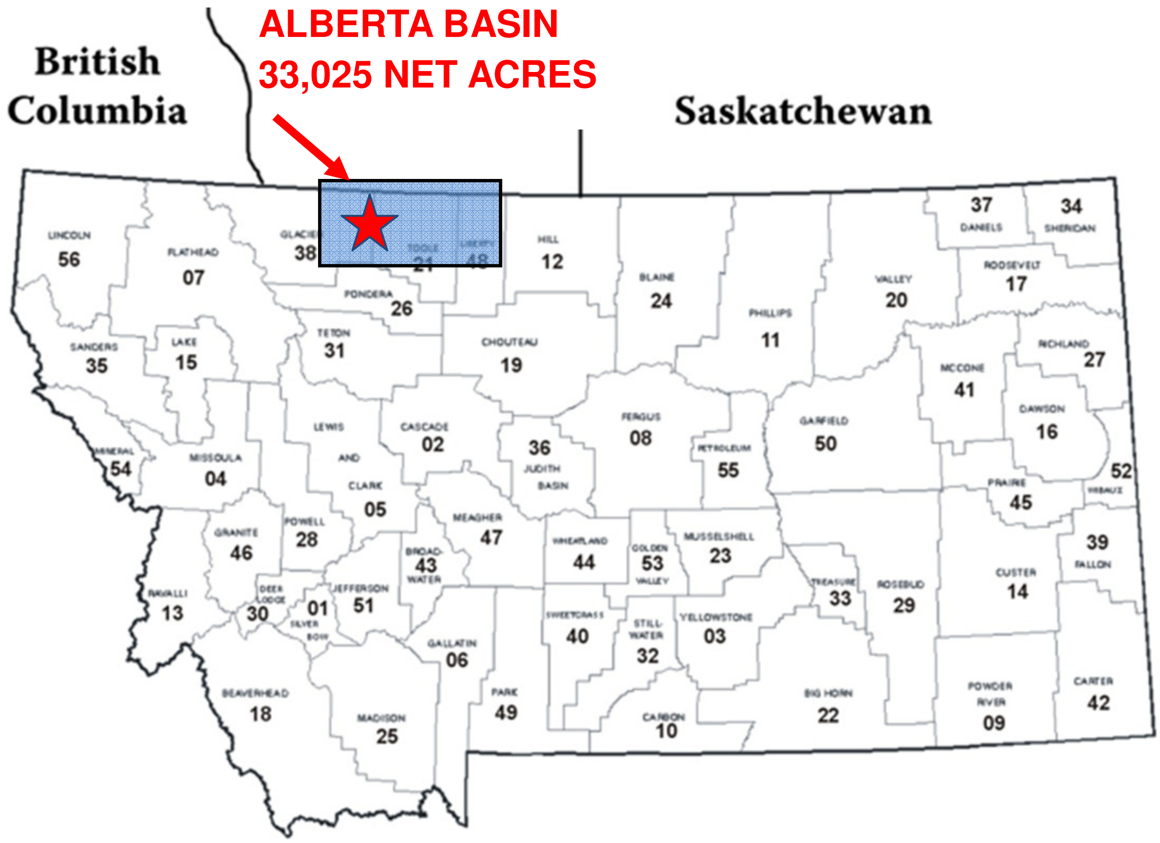
Currently, Big Sky has interests in three separate land packages known as the Somont Farm-In Package, the Americana Acreage Block and the FX Block, collectively referred to as the Glacier Prospects.

On January 26, 2011 Big Sky entered into a Farmout Agreement with Somont Oil Company Inc. to acquire a 33.33% working interest (with a 20% royalty burden) on a 6,333 net acre located in Toole County, Montana known as the Somont Farm-In Package.

On January 27, 2011 Big Sky entered into a Lease Acquisition Agreement pursuant to which it purchased a 33.33% working interest (with a 20% royalty burden) on a total of 2,659 net acres located in Glacier County, Montana known as the FX Block and an additional 72,103 net acres known as the American Acreage Block.

Effective February 2011, the Company signed a Joint Participation Agreement and Operating Agreement with FX Producing Company, Inc. and American Eagle Energy Inc. to explore approximately 100,000 net acres in the Alberta Bakken region of Montana with an undivided 33 1/3% interest each.

Details of the Glacier Projects are further described below and should be read in conjunction with the Technical Reports dated August 1, 2011 and December 31, 2011 prepared pursuant to NI 51-101 by MHA Petroleum Consultants ("MHA") and both entitled "Geological Assessment of the Glacier Prospect Area, Toole and Glacier Counties, Montana" available for review under the Company's profile at www.sedar.com.


ALBERTA BASIN
33,025 NET ACRES
British Columbia
Saskatchewan
LINCOLN 56
FLATHEAD 07
GLACIER 38
TOOLE 21
LIBERTY 48
HILL 12
BLAINE 24
PHILLIPS 11
VALLEY 20
DANIELS 37
SHERIDAN 34
ROOSEVELT 17
PONDERA 26
TETON 31
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SANDERS 35
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RICHLAND 27
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LEWIS AND CLARK 05
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MEAGHER 47
WHEATLAND 44
GOLDEN VALLEY 53
MUSSELSHELL 23
FALLON 39
BROADWATER 43
CUSTER 14
RAVALLI 13
DEER LODGE 30
SILVER BOW 01
JEFFERSON 51
TREASURE 33
ROSEBUD 29
SWEETGRASS 40
STILLWATER 32
YELLOWSTONE 03
GALLATIN 06
BEAVERHEAD 18
MADISON 25
PARK 49
CARBON 10
BIG HORN 22
POWDER RIVER 09
CARTER 42

Big Sky PETROLEUM

3(a) Somont Farm-In Package

Description and Location

Big Sky is participating in a farm-out from Somont Oil Company that earns acreage on a well by well basis and is burdened with a continuous drilling obligation. Big Sky paid $175 to $200 per acre for 6,333 fill-in net acres around the Somont farm-out. Big Sky's working interest is 33.333% with a 20% royalty burden.

The initial obligation well (FX 14-29) has been drilled, as has the first of two subsequent wells (FX 15-13). A third well, if it is to be drilled, is tied to a 180-day obligation clock that started at the spud of the previous well. Any additional wells drilled after these first two subsequent wells are then tied to a 90-day drilling obligation clock that, again, starts at the spud of the previous well drilled. There is no monetary penalty if the Company elects to discontinue drilling additional wells. However, the Farm-out Agreement will terminate and the Company will lose the right to earn additional acreage if drilling ceases.

'Earning' in the Farm-out Agreement is limited to those formations between depth drilled and the base of the Madison Formation. Earning is also limited to formations containing only oil and hydrocarbon bearing gas. Formations, subject to the Farm-out Agreement, that contain non-hydrocarbon bearing gasses (defined in the agreement) cannot be earned by Big Sky.

Although the Upper Exshaw and Three Forks Formations are the primary objectives of this prospect, there is no apparent language in the Farm-out Agreement that precludes Big Sky from drilling and earning rights to formations deeper than the Three Forks.

Geology

MHA constructed a series of seven maps and two cross sections across a sixteen township area encompassing both the Glacier Project and the Americana acreage acquisition. The maps attempt to account for, and assess risk to, the three elements of an exploration drilling opportunity critical for success; 1) the presence of sufficient reservoir, 2) access to mature source rock and, 3) documentation of a hydrocarbon trap. All maps have been updated to include information from the two FX operated wells drilled within the Prospect. MHA finds the Glacier Prospect concept to be interesting geologically because while an overall risk assessment might prove to be moderate to relatively low, each of the critical elements for success has some measurable risk associated with it.

Structure

The prospect acreage that Big Sky is testing is located on the current crest of, and along, the northern flank of the Kevin Sunburst Dome. Structurally, this area has undergone at least three periods of uplift consisting of a Silurian event, a Jurassic event and a final Laramide readjustment. MHA generated an isopach of the Bakken (Lower Exshaw) -Three Forks interval which has proven to be valuable in determining the structural geometry of pre-Mississippian strata. By isopaching across the Devonian unconformity from one conformable layer to another, the effects of topography are removed and what is left is paleo-structure. Isopach thins represent paleo structural highs. With this particular isopach, it appears that in early

Mississippian time the crest of the dome was located more to the north than it is in current geologic time.

Structure is more of a convenience for this play concept rather than a critical element for success. It serves as a migratory focus for all generated hydrocarbons, preferentially moving them toward the Glacier Project area. It may also add a fracture set to the Mississippian carbonates that might not be as abundant elsewhere. While potentially enhancing reservoir behavior, a fracture set might also serve to damage the integrity of any potential seals in the otherwise tight Madison and Lodgepole carbonates. This may explain why the shallower Jurassic and Cretaceous reservoirs are charged with Bakken equivalent oil.

Potential Reservoirs

The primary objectives of this prospect are the Lower Mississippian Exshaw Formation and the Upper Devonian Three Forks Formation. The Lower Exshaw shale is relatively thick within the Glacier Prospect area, but while this shale is considered to be an excellent source of hydrocarbons, it is not generally considered to be an effective reservoir. Of the two primary target reservoirs, the Upper Exshaw (Middle Bakken equivalent), is the most likely target to yield economic success within the Glacier Prospect.

The Three Forks Formation is the Upper Devonian unit lying just below the Lower Exshaw shale. It consists of interbedded tight limestone, shale and siltstone. Potential Three Forks reservoir quality is not as apparent in the Glacier Project Area as it is to the east in the Williston Basin. The unit is relatively thin within the Prospect. It ranges in thickness from less than 10’ to no more than 60’ across most of the acreage.

The Upper Exshaw Formation is better developed than the Three Forks across the Prospect Area. It consists of quartzose and dolomitic silts and fine grained sands and ranges in thickness from 30’ and 90’. Unlike the Three Forks, the Upper Exshaw has mappable zones of effective porosity development within this prospect area. Porosity in the Upper Exshaw ranges from a minimum of essentially 0% to a maximum of about 8%. MHA used a 6% density porosity cutoff to develop a conservative yet realistic picture of the reservoir potential. MHA assigns a risk factor of 75% to the probability that Big Sky will encounter effective reservoir development thick enough to support an economic completion in the Upper Exshaw within the Glacier Project area.

Source Rocks

The relationship between reservoir and hydrocarbon source is excellent in this prospect. The Lower Exshaw shale is sandwiched between the Upper Exshaw above and Three Forks below and is in direct contact with both potential reservoirs. It has been documented to have reached thermal maturity within the area and is recognized as one of the probable sources for much of the oil produced on the Dome.

Whether the Lower Exshaw shale is still within the oil generation window or whether it was removed from the window are two questions that have yet to be answered, and add an element of risk to this play concept. The play concept that is being developed 30-40 miles west-southwest of the Glacier Prospect area is 2000’ to 5000’ deeper and reportedly over-pressured. It contains a full Bakken equivalent section, including both Lower Banff and Lower Exshaw shales and a complete "Middle Bakken" (Upper Exshaw) section. The "Bakken" interval within the Project Area contains only the Lower Exshaw shale but a much thicker Upper Exshaw interval and is expected to be normally pressured.

There is a possibility that in situ hydrocarbon generation on the Dome ceased or was diminished sometime in Upper Jurassic time, bringing effective charge of the Upper Exshaw or Three Forks reservoirs into question. If that is the case, effective charge of either the Upper Exshaw or Three Forks reservoir might rely more on lateral (albeit short distance) migration of hydrocarbons from the more documented mature "Bakken" source to the west of the Prospect area. MHA assigns a risk factor of 70% to the relationship between potential reservoir and effective (mature) source.

Hydrocarbon Shows

Prior to the completion of the FX 14-29, none of the ninety-eight Bakken penetrations drilled within the mapped area produce from the Banff, Upper Exshaw or Three Forks Formations, and there is no evidence of any completion attempts. Only six wells reporting shows of hydrocarbons in either the Upper Exshaw or Three Forks Formations are within the mapped area. In general, all six of these shows would be considered weak. One well (1-D J P Johnson - NWNW 32 35N 1W), tested the Upper Exshaw but recovered only 20' of drilling mud. One other well with sample descriptions (NENE 2 34N 1W) reported no shows in any of the target reservoirs. This does not mean that there were no hydrocarbon shows in this interval in the other sixty-seven "Bakken" penetrations. It means that there was no available supporting data in the form of sample descriptions, core descriptions or mud gas analysis to document any possible shows. There is no evidence of free water recovery from any Banff, Upper Exshaw or Three Forks; DST's or any mention of a water wet section from either core or sample descriptions.

There are an additional seven confirmed shows in wells drilled in townships immediately adjacent to the mapped area. Some of these shows are slightly stronger than the ones noted above, but there were no Banff, Upper Exshaw or Three Forks completion attempts made in any of these wells. The fact that the majority of shows documented in the Upper Exshaw, within or near the Glacier Prospect area, are generally weak on a structure the size of Kevin Sunburst Dome might suggest that the reservoir seals above the Banff may be partially breached.

Trap

There is little doubt that molecules of hydrocarbons generated in the "Bakken" passed through the Banff, Upper Exshaw or Three Forks formations, or all three, before following some circuitous route to stratigraphically higher reservoirs. It is also known that there are reported shows within each formation, with more reported in the Upper Exshaw. The unknown is whether there are sufficient hydrocarbons remaining in either formation to sustain economic production.

Normally, the tight carbonates of the Lodgepole and Madison provide a sufficient seal to prevent, or at least hinder, the vertical migration of hydrocarbons from the Banff to stratigraphically younger reservoirs. On the Kevin Sunburst Dome, however, fractures associated with the dome may have damaged the integrity of these seals adding moderate risk to one of the critical elements for success. A reasonable risk factor of 60% was assigned to the probability that Big Sky will encounter effective reservoir seals and trapping conditions within the Glacier Prospect area.

Exploration and Development

Exploration Program

The first exploration well drilled to evaluate this prospect was the FX 14-29, located in the SESW 29 T35N R1W. Sample descriptions documented the presence of good, even, light to dark brown oil staining on samples recovered while coring the Upper Exshaw interval and core plug analysis confirmed the presence of interesting residual oil saturations in a porosity zone developed in the lower portion of the Upper Exshaw. Analysis of well logs indicates that the Upper Exshaw (Middle Bakken) is 82' thick. The Three Forks interval was only 6' thick. While cross-plotting the Density and Neutron porosity curves would indicate approximately 18-20' of porosity greater than 6% in the Upper Exshaw interval, MH uses only the Density curve as an indicator of effective porosity. As a result, MHA assigned 0' of porosity greater than 6%.

Fractures were expected to be associated with drilling in this structural setting and their presence was documented in the core analysis. It was hoped that natural fractures should enhance reservoir productivity on this structure. The horizontal leg of this well was drilled and fracture stimulated in the Upper Exshaw (Middle Bakken) interval, but thus far its performance has not lived up to expectations. The well is currently producing only 2-6 BOPD on pump. There is no potential in the Three Forks interval in this well.

The second well to be drilled was the FX 15-13, located in the SWSE 13 T34N R2W. Only the vertical portion of this well has been drilled to date. The horizontal leg is still pending and may not be drilled until the late second quarter or early third quarter of 2012. Like the 14-29 well, sample shows in the Upper Exshaw interval are encouraging. Sample shows in the upper Three Forks are also encouraging.

Development Program

A third well is currently being considered for this black of acreage, but it probably will not be drilled before the late third quarter or early fourth quarter of 2012. Its location and timing will be dependent on the performance of the first two wells.

Conclusions

Through this geologic evaluation commissioned from MHA Petroleum Consultants, the following observations and conclusions about the Somont Farm-in (Glacier Project Area) are made:

- The Somont Prospect Area lies along the crest and northern flank of current day structural configuration of the Kevin Sunburst Dome.
- Current value of the leased properties is between $1,125,000 and $1,500,000.
- The "Bakken" reached thermal maturity and generated significant amounts of liquid rich hydrocarbons either within, or near, the Prospect Area.
- Only one of the two "Bakken" shales is present within the Prospect Area.

- The Upper Exshaw Formation is present throughout the Prospect Area.
- The Upper Exshaw Formation contains zones of measurable porosity within the Prospect Area.
- There appears to be more Upper Exshaw potential within the majority of the Prospect Area than Three Forks potential.
- The Three Forks Formation is present throughout the Prospect Area, but contains no recognizable zones of mappable porosity within the Prospect Area.
- There have been no completion attempts of Upper Exshaw or Three Forks intervals within the Prospect Area.
- MHA's assessment of effective source risk is approximately 70%.
- MHA's assessment of trap risk is approximately 60%.
- MHA's assessment of reservoir risk is approximately 75%.
- MHA's overall assessment of the Probability of Success for the first well drilled within this prospect is approximately 32%.
- This play concept appears to have been proven successful in recently drilled wells 30-40 miles to the west-southwest.

Based on all of the above observations, MHA can confirm that both potential reservoirs are present within the Glacier Prospect Area, that there is an excellent relationship between source and potential reservoir, and that the play concept targeted within the prospect area merits additional testing.

3(b) Americana Acreage Block

Description and Location

The 'Americana' acreage package consists of approximately 72,103 net acres. Big Sky has a 33.333% working interest with a 20% royalty burden in this block. Unlike the Somont Glacier Prospect Area, Big Sky has purchased this acreage block. No earning wells will be required to earn an interest in the lease position and it is assumed that lease assignments covered rights to all depths. MHA evaluated this acreage package with the same series of maps and cross sections mentioned earlier in the NI51-101 report. The focus of the evaluation was consistent with the other two evaluations and covered only the lower Mississippian and upper Devonian potential. MHA finds this 'Americana' play concept to be interesting, geologically, but containing significant risks that directly impact the probability of economic success. Each of these risks is discussed below.

Geology

Structure

The prospect acreage that Big Sky will be testing is located on the eastern flank of the Kevin Sunburst Dome. Whether structure is critical for trap definition has yet to be determined, but the acreage that will be tested lies between 400' and 800' down dip of the crest of the Dome. Any hydrocarbons generated from the "Bakken" shale could have easily migrated into potential Banff, Upper Exshaw (Middle Bakken) and/or Three Forks reservoirs. However, the Lower Exshaw ("Bakken")-Three Forks Isopach and current structure on the Lower Exshaw shale indicate that the preferred direction of migration would have been to the west, toward the crest of the Dome and away from this acreage package. Without a successful test of either the Upper Exshaw or Three Forks reservoirs, the structural positioning of this acreage package on the Dome adds a significant element of risk to any potential test.

Potential Reservoirs

The primary objectives of this prospect are the Lower Mississippian Exshaw Formation (Middle Bakken) and the Upper Devonian Three Forks Formation. The Lower Exshaw shale is relatively thin within the majority of this acreage block, but again, while it is generally considered to be an excellent source of hydrocarbons, it is not generally considered to be an effective reservoir.

Three Forks reservoir quality is not as apparent in this acreage package as it is to the east in the Williston Basin. There is, however, a persistent unit in the upper Three Forks that is mappable across the central portion of Big Sky's acreage position. This interval ranges in thickness between 0' and 22', but only rarely exceeds 14' in thickness within the Americana acreage package. While the zone is mappable and represents a potential target reservoir, there was no observed density porosity and there is no record of hydrocarbon shows in any of the Three Forks penetrations drilled near Big Sky's acreage position. MHA recognizes this zone as a potential reservoir, but attaches significant risk to the possibility of it developing into a viable reservoir.

The Upper Exshaw Formation is better developed than the Three Forks across the Americana acreage block. It consists of quartzose and dolomitic silts and fine grained sands and ranges in thickness from 30' to 90' across the majority of the Americana block. Unlike the Three Forks, the Upper Exshaw has mappable zones of effective porosity development. Porosity, as determined from density logs, ranges from a minimum of essentially 0% to a maximum of about 8%. MHA used a 6% density porosity cutoff to develop a conservative yet realistic picture of the reservoir potential. MHA assigns a risk factor of 70% to the probability that Big Sky will encounter effective reservoir development thick enough to support an economic completion in the Upper Exshaw within this Americana acreage block.

Source Rocks

The relationship between reservoir and hydrocarbon source is good in the vicinity of this acreage package. The Lower Exshaw "Bakken" shale, sandwiched between the Upper Exshaw above and Three Forks below, is in direct contact with both potential reservoirs. Even though it is thin over much of this acreage block, it has been documented to have reached thermal maturity. Whether this Lower Exshaw interval is still within the oil generation window, or whether it was removed from the window, are questions that have yet to be answered and add an element of risk to this play concept.

There is a possibility that in-situ hydrocarbon generation in the vicinity of the Dome ceased or was diminished sometime in Upper Jurassic time, bringing effective charge of the Upper Exshaw or Three Forks reservoirs into question. If that is the case, effective charge of either the reservoir might be forced to rely on lateral migration of hydrocarbons from mature source to the east of this acreage package. The risks associated with this scenario are significant. Big Sky's acreage position lies along the eastern edge of the mapped maturity limits of the Lower Exshaw shale and it thins dramatically to the east of this acreage position. MHA assigns a risk factor of 30% to the relationship between potential reservoir and adequate, effective (mature) source.

Hydrocarbon Shows

Like the Glacier Prospect to the west, none of the ninety eight “Bakken” penetrations drilled within the mapped area produce from either the Upper Exshaw or Three Forks Formations and there is no evidence of any completion attempts. Only six wells reporting shows of hydrocarbons in either the Upper Exshaw or Three Forks Formations are within the mapped area but four of these are immediately adjacent to the acreage package. In general, all six of these shows would be considered weak. This does not mean that there were no hydrocarbon shows in this interval in the other ninety two “Bakken” penetrations. As already noted, it merely means that there was no available supporting data in the form of sample descriptions, core descriptions or mud gas analysis to document any possible shows. There is no evidence of free water recovery from any Upper Exshaw or Three Forks DST or any mention of a water wet section from either core or sample descriptions.

Trap

Normally, the tight carbonates of the Lodgepole and Madison provide a sufficient seal to prevent, or at least hinder, the vertical migration of hydrocarbons from the Upper Exshaw to stratigraphically younger reservoirs. For tests on this particular package of acreage, the risk of not having an effective trap is defined more by lateral migration away from the acreage rather than the presence of effective vertical seals. Without lateral seals to compartmentalize the reservoirs there is a significant risk that mobile hydrocarbons have migrated updip, toward the crest of Kevin-Sunburst Dome, as evidenced by the amount of shallow production found closer to the crest. A risk factor of 40% was assigned to the probability that Big Sky will document effective reservoir seals and trapping conditions in test wells drilled within this acreage package.

Exploration and Development

Exploration Program

Big Sky, with FX Energy as operator, is scheduled to drill its first exploration well (NWNW 3 T34N R1E) on this acreage block in March of 2012. While the Bakken and Three Forks intervals remain the primary objectives of this exploration effort, the well will be taken into the Devonian Nisku Formation to evaluate its potential.

Development Plan

Until this play concept has been tested and confirmed, no specific plans for development have been outlined or discussed.

Conclusions

The following observations and conclusions about the Americana Acreage Block are made:

- The acreage package lies along the eastern flank of the current day structural configuration of Kevin Sunburst Dome.
- Current value of the leased properties is based on historical lease sale records and is approximately $4,266,000.
- The "Bakken" reached thermal maturity and generated significant amounts of liquid rich hydrocarbons either within, or near, the acreage package.
- Only one of the two "Bakken" shales is present within the Americana Block.
- The Upper Exshaw Formation (Middle Bakken) is present throughout the acreage package.
- The Upper Exshaw Formation contains zones of measurable porosity within the acreage package.
- There appears to be more Upper Exshaw potential within the majority of the acreage package than Three Forks potential.
- The Three Forks Formation is present throughout the acreage package. It contains a mappable zone of interest, but contains no mappable density porosity.
- There have been no completion attempts of Upper Exshaw or Three Forks intervals within the acreage package.
- MHA's assessment of effective source risk is approximately 30%.
- MHA's assessment of trap risk is approximately 40%.
- MHA's assessment of reservoir risk is approximately 70%.
- MHA's overall assessment of the Probability of Success for the first well drilled within this Prospect is approximately 8%.
- This general play concept appears to have been proven successful in recently drilled wells 40 miles to the west-southwest.

Based on all of the above observations, MHA can confirm that both potential reservoirs are present within the acreage package, that there is only a good relationship between source and potential reservoir, and that the play concept targeted within the acreage package merits testing if the assigned risk elements are recognized and accepted.

Upper Exshaw/Banff plays to both the west and to the north have proven to be very prolific and there is evidence that this acreage package may exhibit some of the same productive potential.

3(c) FX Block

Description and Location
Big Sky's FX acreage block consists of 10,597 gross acres located in Townships 31N-33N Ranges 5W-6W, Glacier County, Montana. This was a purchase by Big Sky for $200 per acre (total of 2,659 net acres) for a 33.33% working interest with a 20% royalty burden.

Geology

Exploration on the FX block will target the Lower Mississippian Banff and Exshaw Formations as well as the Upper Devonian Three Forks Formation. Portions of the Banff and Exshaw Formations make up the "Bakken" equivalent section in this area. The lower Banff is an organic rich shale that is time equivalent to the upper Bakken shale. The Lower Exshaw is an organic rich shale that is time equivalent to the lower Bakken shale. The Upper Exshaw and "Middle

Bakken" are time equivalent. Of these, the Upper Exshaw appears to be the primary objective in the FX block although it appears to be significantly thinner than what is expected to be encountered on the other two acreage blocks.

Exploration and Development

Big Sky has already participated in a well (FX 81-3, NWNE 26 T32N R6W) on the FX block. Although open-hole electric logs were not particularly encouraging, there was a good show of live oil recovered from the perforating gun as the well was being readied for stimulation. But since the Three Forks, Upper Exshaw and Banff Formations were all perforated at the same time, it cannot be determined which formation or formations contributed that oil. Based on log resistivity only, it would appear that the oil came from the Upper Exshaw interval. Unfortunately, well performance after completion was not as encouraging as earlier sample shows might have indicated. The FX 81-3 is currently shut-in, awaiting further evaluation. A couple of additional locations are in the process of being permitted, but the timing of more drilling on this block has not yet been determined.

The Upper Exshaw is only 16 feet thick in the FX 81-3 and there is no obvious development of log porosity on the limited views of logs available to MHA. Regional maps of this zone indicate that the well probably encountered some of the thickest potential development of the Upper Exshaw on this acreage block and that additional wells are expected to encounter only between 10 feet and 20 feet.

There is no mapped potential in the Three Forks Formation and while there is some porosity development at the base of the interval, low resistivities would suggest little or no effective hydrocarbon charge. The Banff section contains no log porosity.

Conclusions

The presence of both the Lower Banff and Lower Exshaw shales in the well indicates that the relationship between source and potential reservoir is excellent. Adequate reservoir development, however, appears to be a significant risk factor that may slow the successful development of the FX block. It is MHA's opinion that the FX block contains only limited development potential in the target zones mentioned above, the economics of which have yet to be determined.

3(d) Recent Update

Well	Type	Status	Target
FX 81-3	Vertical	• Drilled and fracture stimulated vertically confirming presence of oil and gas. • Close proximity to the Provident Tribal Well.	Bakken/Three Forks
Somont 14-29	Horizontal	• Drilled horizontally and fracture stimulated in Q4 2011. • Being evaluated through Q2 2012.	Banff/Three Forks
Somont 15-13	Horizontal	• Drilled vertically and cased. • Awaiting horizontal completion Q3 2012.	Banff/Three Forks
FX 81-4	Horizontal	• Spud date Q3 2012 • Permitting for a horizontal well to be completed in the Middle Bakken expected by Q2 2012	Bakken/Three Forks
Americana 4-3	Vertical	• Drilled vertically in Q1 to determine the prospectiveness of the eastern flank of the Kevin Dome. • Core sent for analysis.	Banff/Three Forks
FX 81-5	Horizontal	• Spud date Q4 2012	Bakken/Three Forks

The **81-3 Well**: It was a vertical deepening of an existing well designed to cost effectively evaluate the various prospective zones within the Bakken Source System. The 81-3 strat test well confirmed the presence of oil in the target zones following a small stimulation of multiple zones in the well. The 81-4 Well is planned – see below.

The **14-29 Well**: It has been fracture stimulated and is currently undergoing testing and evaluation. The approximate 4,100 feet lateral section targeted the Middle Bakken Formation. It is still being tested and evaluated. The evaluation from this well will determine the horizontal drilling and completion program for the 15-13 Well.

The **15-13 Well**: It is located approximately 3 miles south-west of the 14-29 Well and was vertically drilled and cased and is awaiting completion. The next operation planned for this well is horizontal drilling and completion including a planned fracture stimulation. This operation is scheduled for the second quarter.

The **81-4 Well**: It is expected to receive permitting approval in the second quarter. Once approval for the 81-4 Well has been obtained, the first phase of drilling this new well will be completed. Big Sky previously re-entered, deepened, and stimulated the 81-3 Well which confirmed the presence of oil and provided the basis for drilling the 81-4 Well. The Company plans to drill a 4,500' pilot hole to test the Middle Bakken. Based upon results of the vertical test, a 3,500' horizontal leg is planned for the Middle Bakken. Frac design, stimulation and completion programs will be concluded after all well data has been processed and evaluated.

The **4-3 Well**: It has been drilled to total depth. The well was drilled to determine the reservoir characteristics of the Bakken and Three Forks formations. The well was drilled to determine the prospectiveness of the eastern flank of the Kevin Dome and the information will be included in our revised geological model, which will determine our future geographic area of interest.

4. Risks and Uncertainties

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 the Company.

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 it 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 its 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 its 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 competes 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 us. The Company's ability to increase reserves in the future will depend not only on the Company's ability to explore and develop its 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 it 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 the Company 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

The Company recently completed its financing in Canadian dollars; however, a significant amount of the Company's activities are transacted in or referenced to US dollars. The majority of the Company's operating costs and all of the Company's payments in order to maintain property interests are to be in US dollars. As a result, fluctuations in the US dollar against the Canadian dollar could result in unanticipated fluctuations in the Company's financial results. The Company does not manage its exposure to fluctuations in the US dollar against the Canadian dollar.

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 its 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 its ability to expend the necessary capital to replace its reserves or to maintain its 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.

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5. Impairment of Oil and Gas Properties

The Company completed an impairment analysis as at December 31, 2011 which considered the indicators of impairment. Management concluded that no impairment charge was required because:

- The Company obtained a recent NI 51-101 report supporting its properties;
- The joint interest partners and the Company are continuing its exploration work on the properties;
- All property rights remain in good standing;
- The Company takes the approach of expensing its exploration costs;
- The price of oil and gas is favorable; and
- The Company intends to continue its exploration and development plans on its properties.

6. Material Financial and Operations Information

6(a) Selected Annual Financial Information

Selected Annual Information

	Year ended December 31 2011	**Year ended December 31 2010**	**Year ended December 31 2009**
	Under IFRS		Under Canadian GAAP
	$	$	$
Oil & gas revenue	-	-	-
Exploration and evaluation expenses	(1,858,684)	(199,408)	-
General and administrative expenses	(954,319)	(55,471)	(13,728)
Other income (expenses)	(2,099,364)	29,574	435,795
Income (Loss) for the year	(4,912,367)	(225,305)	422,067
Income (Loss) per share	(0.48)	(0.07)	0.13
Total assets	7,033,206	-	439,948
Total long-term financial liabilities	-	-	-
Cash dividends declared – per share	N/A	N/A	N/A

6(b) Summary of Quarterly Results

The following is a summary of the Company's financial results for the last eight quarters:

	Dec 31, 2011 Quarter	Sep 30, 2011 Quarter	Jun 30, 2011 Quarter	Mar 31, 2011 Quarter	**Dec 31, 2010 Quarter**	Sep 30, 2010 Quarter	Jun 30, 2010 Quarter	Mar 31, 2010 Quarter
	Under IFRS							
Revenue	**-**	-	-	-	**-**	-	-	-
Net Income (loss)	**(3,802,387)**	(247,292)	(796,843)	(65,845)	**(35,932)**	-	(194,153)	4,780
Loss per Share	**(0.38)**	(0.04)	(0.15)	(0.02)	**(0.01)**	0.00	(0.06)	0.00

6(c) Review of Operations and Financial Results

For the year ended December 31, 2011 compared to the year ended December 31, 2010

During the year ended December 31, 2011, the Company incurred losses of $4,912,367 ($0.49 loss per share) compared to a net loss of $225,305 ($0.07 loss per share) for the same period in 2010.

During the year ended December 31, 2011, the Company incurred $1,858,684 (2010 - $199,408) exploration and evaluation expenses, mostly related to intangible drilling and intangible completion of the wells.

During fiscal 2011, the Company incurred $954,319 (2010 – $55,471) in general and administrative expenses, of which $375,219 (2010 – $Nil) relates to non-cash share-based payment expense for options vested during the period. Excluding the non-cash item, the Company's general and administrative expenses amounted to $579,100, compared to 2010's $55,471, an increase of $523,629. The increase was mainly due to the Company entering into all the agreements pertaining to the oil and natural gas properties and being active in its operations, resulting in an increase in professional fees from 2010's $Nil to 2011's $327,942; transfer agent, listing and filing fees from 2010's $660 to 2011's $41,657; travel expenses from 2010's $46,307 to 2011's $91,718; and office and administrative fees from 2010's $8,504 to 2011's $116,676.

During the year ended December 31, 2011, the Company had finance expense of $950,765, of which the actual interest expense amounted to $418,209, with the rest of the finance expense related to the reverse take-over costs as well as shares issued to the lenders. The Company also received $44,000 as break fee for failing to complete a transaction. $15,048 interest income was received by the Company from its private placements funds. The Company also incurred $1,219,450 (2010 - $Nil) related to non-cash listing expense as a result of the reverse take-over of Fox Resources Ltd.

<u>For the three months ended December 31, 2011 compared to the three months ended December 31, 2010</u>

During the three months ended December 31, 2011, the Company incurred losses of $3,802,387 ($0.38 loss per share) compared to a net loss of $35,932 ($0.01 loss per share) for the same period in 2010.

Excluding the non-cash related expenditures of $1,219,450 listing expense as a result of the reverse take-over of Fox Resources Ltd., $375,219 share-based payments and $457,758 share issuance for interest expense, the Company's loss during the current period is $1,749,960.

The increase was due to the Company negotiating the reverse take-over of Fox Resources Ltd. during the fourth quarter in 2011 as well as becoming actively involved with its oil and natural gas properties. In 2010, the Company was still looking to acquire its first oil and natural gas property.

6(d) Liquidity and Capital Resources

The Company's working capital as at December 31, 2011 was $5,422,232 (2010 – working capital deficiency of $225,305). Cash totaled $5,877,244 as at December 31, 2011, an increase of $5,877,244 from $nil as at December 31, 2010. The increase was a result of (a) $8,283,264 net proceeds from the non-brokered private placement; (b) $943,815 cash acquired from the reverse take-over of Fox Resources Ltd.; and being offset by (c) $2,630,233 operating costs, and (d) $1,022,601 investment in oil and natural gas properties.

The Company completed a Cdn$9,000,000 private placement on September 30, 2011 by issuing 25,714,285 units ("Unit") at Cdn$0.35 per Unit. Each Unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share for a period of two years at a price of Cdn$0.66 until September 30, 2012 and Cdn$0.80 until September 30, 2013.

Finder's warrants, entitling the holder to purchase up to 1,830,070 Units for a period of 24 months from issue at Cdn$0.35 per Unit were issued. A cash finder's fee of Cdn$512,420 was paid and the finder elected to receive Cdn$100,000 of this amount in Units for a total of 285,713 Units. The four-month hold period began on the date that the Financing closed and expired on February 1, 2012.

The Company issued 27,000,000 common shares to acquire 100% interest in Big Sky Operating LLC and 1,350,000 common shares to the lenders of Big Sky Operating LLC (see "Summary and Outlook" section).

As of the date of this MD&A, the Company has no other outstanding commitments. The Company has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants.

Management estimates that the current cash position and future cash flows from warrants, finders' warrants and options and potential financing will be sufficient for the Company to carry out its anticipated exploration and operating plans through 2012.

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives.

6(e) Disclosure of Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

	No. of Common Shares Issued & Outstanding	Share Capital Amount
December 31, 2011	60,676,665	$10,470,846

The Company has established a stock option plan for its directors, officers and consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company.

During the year ended December 31, 2011, 50,000 options at Cdn$0.30 were exercised and 1,470,000 options were granted at exercise price of Cdn$0.35 expiring December 1, 2016. As at December 31, 2011, the Company had a total of 1,643,333 options outstanding, with exercise prices ranging from Cdn$0.30 to Cdn$0.35, expiring between May 21, 2013 and December 1, 2016. If all the remaining outstanding options were exercised, the Company's available cash would increase by Cdn$566,500.

During the year ended December 31, 2011, 1,560,000 warrants at Cdn$0.45 and 25,999,998 warrants at Cdn$0.66 for the first year and Cdn$0.80 for the second year were issued expiring on October 25, 2012 and September 30, 2013, respectively. In addition, 198,000 finders' warrants at Cdn$0.30 and 1,830,070 finders' warrants at Cdn$0.35 were issued expiring on October 25, 2012 and September 30, 2013, respectively. The 198,000 finders' warrants are exercisable at a price of Cdn$0.30 into one common share and one-half of one warrant exercisable at a price of Cdn$0.45 while the 1,830,700 finders' warrants are exercisable at a price of Cdn$0.35 into one common share and one warrant exercisable at a price of Cdn$0.66 for the first year and Cdn$0.80 for the second year.

As at December 31, 2011, the Company had 27,559,998 warrants and 2,028,070 finders' warrants outstanding, with the exercise prices ranging from Cdn$0.30 to Cdn$0.66, expiring between October 25, 2012 and September 30, 2013. If all the remaining outstanding warrants, finders' warrants and the warrants associated were exercised, the Company's available cash would increase by Cdn19,814,319.

As of the date of this MD&A, there were 60,676,665 common shares issued and outstanding and 93,837,136 common shares outstanding on a diluted basis.

6(f) Commitment and Contingency

None.

6(g) Off-Balance Sheet Arrangements

None.

6(h) Transactions with Related Parties

The aggregate value of key management compensation are as follows:

For the year ended December 31, 2011:

	Short term benefits	Share-based Payments	Total
Milton Cox, Chief Executive Officer and Director	$ -	$ 51,045	$ 51,045
Sam Nastat, President	-	51,045	51,045
Mark T. Brown, Chief Financial Officer, Corporate Secretary and Director	-	76,568	76,568
George Robinson, Director	-	25,523	25,523
Desmond Balakrishnan, Director	-	25,523	25,523

For the year ended December 31, 2010:

	Short term benefits	Share-based Payments	Total
Milton Cox, Chief Executive Officer and Director	$ -	$ -	$ -
Sam Nastat, President	-	-	-
Mark T. Brown, Chief Financial Officer, Corporate Secretary and Director	-	-	-
George Robinson, Director	-	-	-
Desmond Balakrishnan, Director	-	-	-

The aggregate value of transactions with other related parties are as follows:

For the year ended December 31, 2011:

	Consulting fees and other
CodeAmerica Investments LLC. [a]	$ 40,000
CNC Holdings Ltd.[b]	40,000
Pacific Opportunity Capital Ltd. [c]	6,490

For the year ended December 31, 2010:

	Consulting fees and other
CodeAmerica Investments LLC. [(a)]	$ -
CNC Holdings Ltd.[(b)]	-
Pacific Opportunity Capital Ltd. [(c)]	-

Amounts due to (from) related parties as at:

	Services for	December 31, 2011	December 31, 2010	January 1, 2010
Pacific Opportunity Capital Ltd.	Rent, accounting and consulting services	$ 18,839	$ -	$ -
CodeAmerica Investments LLC	Expense reimbursements [(d)]	-	222,643	(438,808)
		$ 18,839	$ 222,643	$ (438,808)

(a) CodeAmerica Investments LLC., a company owned by the Chief Executive Officer of the Company, charged for consulting fees.

(b) CNC Holdings Ltd., a company owned by the President of the Company, charged for consulting fees.

(c) Pacific Opportunity Capital Ltd., a company controlled by the Chief Financial Officer of the Company, charged for rent, accounting and consulting fees for an accounting and administrative team.

(d) At December 31, 2010, the Company had a payable to CodeAmerica Investments LLC in the amount of $222,643 for direct expenses such as travel, engineering and geological expenses incurred in the exploration of the Alberta Bakken area. At January 1, 2010, the Company had a receivable from the owner in the amount of $438,808.

6(i) Financial Instruments

The fair values of the Company's cash, accounts receivable (net of input tax credits receivable), and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments.

Amounts due to/from related parties approximate their fair value as they are due on demand.

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

(a) Foreign currency risk

The Company raises financing in Canadian dollars while incurring exploration costs on its Montana oil and gas properties as well as the majority of its administrative expenses in US dollars. The Company is therefore affected by changes in exchange rates between the Canadian dollar and US dollar currencies which may adversely affect the Company's financial position, results of operations and cash flows. The Company has net monetary assets of $4,622,000 (2010 - $nil) denominated in Canadian dollars. A 6% change in the absolute rate of exchange in US dollars would affect its net loss by $272,000.

(b) Credit risk

The Company's cash is held in a Canadian financial institution and a US financial institution. The Company does not have any asset-backed commercial paper in its cash and cash equivalents. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's accounts receivable consists primarily of joint interest partner's receivables and harmonized sales tax due from the federal government of Canada. The Company manages its joint interest partner's receivable by maintaining a close working relationship and monitoring the aging of such.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities and amounts due to related parties are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because they are generally held to maturity. A 1% change in the interest rate, with other variables unchanged, would affect the Company by an annualized amount of interest equal to approximately $58,800.

6(j) Management of Capital Risk

The Company's capital is comprised of share capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition and exploration of oil and gas properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

There were no changes to the Company's approach to capital management during the year and the Company is not subject to any externally imposed capital requirements.

7. Subsequent Events

Other than disclosed in above sections, subsequent to December 31, 2011, the Company and its two Joint Participation Agreement partners sold approximately 26,000 acres and received approximately $650,000, of which the Company has one-third interest.

8. Policies and Controls

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 consolidated 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:

- the recoverability of amounts receivable and prepayments which are included in the consolidated statement of financial position;
- the carrying value of the unproved oil and natural gas properties and the recoverability of the carrying value which are included in the consolidated statement of financial position;
- the inputs used in accounting for share-based payment expense in the consolidated statement of comprehensive loss; and
- the provision for income taxes which is included in the consolidation statements of comprehensive loss and composition of deferred income tax assets and liabilities included in the consolidated statement of financial position.

8(b) Future Accounting Pronouncements

The Company will be required to adopt certain standards and amendments issued by the International Accounting Standards Board ("IASB"), as described below, all of the new and revised standards described below may be early adopted.

<u>IAS 27 *Separate Financial Statements* (2011)</u>

This amended version of International Accounting Standard ("IAS") 27 that now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

<u>IAS 28 *Investments in Associates and Joint Ventures* (2011)</u>

This standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

<u>IFRS 9 *Financial Instruments* (2009)</u>

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a "business model" test and a "cash flow characteristics" test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss
- The concept of "embedded derivatives" does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

This standard is only applicable if it is optionally adopted for annual periods beginning before January 1, 2015. For annual periods beginning on or after January 1, 2015, the Company must adopt IFRS 9 (2010).

IFRS 9 *Financial Instruments* (2010)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*.

The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

Applies to annual periods beginning on or after January 1, 2015. This standard supersedes IFRS 9 (2009). However, for annual reporting periods beginning before January 1, 2015, an entity may early adopt IFRS 9 (2009) instead of applying this standard.

IFRS 10 *Consolidated Financial Statements*

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in “special purpose entities”). Under IFRS 10, control is based on whether an investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the returns.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 11 *Joint Arrangements*

Replaces IAS 31 *Interests in Joint Ventures*. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets and obligations for the liabilities

relating to the arrangement. Joint operators recognize their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly)
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 *Investments in Associates and Joint Ventures* (2011). Unlike IAS 31, the use of "proportionate consolidation" to account for joint ventures is not permitted.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 *Disclosure of Interests in Other Entities*

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- Significant judgments and assumptions - such as how control, joint control and significant influence has been determined
- Interests in subsidiaries - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information)
- Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities.

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

Applicable to annual reporting periods beginning on or after January 1, 2013. If early adopted, must be adopted together with IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011).

IFRS 13 Fair Value Measurement

Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard.

This IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- **Level 1** - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- **Level 2** - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- **Level 3** - unobservable inputs for the asset or liability.

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g., whether it is recognized in the financial statements or merely disclosed) and the level in which it is classified.

Applicable to annual reporting periods beginning on or after January 1, 2013.

Amendments to IFRS 7 Financial Instruments: Disclosures

Makes amendments to IFRS 7 *Financial Instruments: Disclosures* resulting from the IASB's comprehensive review of off statement of financial position activities.

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Applies to annual periods beginning on or after July 1, 2011.

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

Amends IAS 12 *Income Taxes* to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale.

As a result of the amendments, SIC-21 *Income Taxes — Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

Applicable to annual periods beginning on or after January 1, 2012.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

Amends IAS 1 *Presentation of Financial Statements* to revise the way other comprehensive income is presented.

The amendments:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e., either as a single "statement of profit or loss and comprehensive income", or a separate "statement of profit or loss" and a "statement of comprehensive income" – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i.e., those that might be reclassified and those that will not be reclassified
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

Applicable to annual reporting periods beginning on or after July 1, 2012.

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early-adopt any of the new requirements.

8(c) Internal Controls Over Financial Reporting

Changes in Internal Control Over Financial Reporting ("ICFR")

In connection with National Instrument 52-109, *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109") adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issue Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI52-109.

Disclosure Controls and Procedures

The Company's CEO and CFO are responsible for establishing and maintaining the Company's disclosure controls and procedures. Management, including the CEO and CFO, have evaluated the procedures of the Company and have concluded that they provide reasonable assurance that material information is gathered and reported to senior management in a manner appropriate to ensure that material information required to be disclosed in reports filed or submitted by the Company is recorded, processed, summarized and reported within the appropriate time periods.

While management believes that the Company's disclosure controls and procedures provide reasonable assurance, they do not expect that the controls and procedures can prevent all errors, mistakes, or fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

9. Changes in Accounting Policies

As stated in Note 2 of the consolidated financial statements, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The Company adopted IFRS in accordance with IFRS 1 effective January 1, 2011. 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 IFRS in effect at the end of the first IFRS annual reporting period. Accordingly, the opening IFRS statement of financial position as at January 1, 2010, the December 31, 2010 comparatives and the December 31, 2011 consolidated financial statements have been prepared using the same policies. The previously presented December 31, 2010 financial statements were presented under Canadian GAAP and have been reconciled to IFRS as part of this transition note in accordance with the requirements of IFRS 1. Further, the policies have been applied on a full retrospective basis unless an alternative treatment is permitted or required by an IFRS 1 election or exception, which are discussed below.

Mandatory exceptions under IFRS

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

(a) 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 IFRS 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 tables in the consolidated financial statements represent the reconciliations from Canadian GAAP to IFRS for the respective periods noted.

10. Information on the Board of Directors and Management

Directors:
Milton Cox, MBA, BBA
Mark T. Brown, B.Comm, C.A.
George Robinson, BSc
Desmond M. Balakrishnan, BA, C.LA, LLB

Audit Committee members:
Mark T. Brown, George Robinson and Desmond M Balakrishnan

Management:
Milton Cox, MBA, BBA – Chief Executive Officer
Sam Nastat – President
Mark T. Brown, CA – Chief Financial Officer and Corporate Secretary