Big Sky PETROLEUM

*(formerly Fox Resources Ltd.)*

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## FOR THE THREE MONTHS ENDED MARCH 31, 2012

***(Expressed in US Dollars)***

**(Unaudited – Prepared by Management)**

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## Contents

**NOTICE OF NO AUDITOR REVIEW OF**

**INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor

# BIG SKY PETROLEUM CORPORATION

*(formerly Fox Resources Ltd.)*

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in US dollars)

| | Notes | | March 31, 2012 (Unaudited) | | December 31, 2011 (Audited) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Oil and natural gas properties | 5 | $ | 1,080,773 | $ | 1,022,601 |
| Prepaid expenses | | | 38,593 | | 31,947 |
| Due from related party | 7 | | 1,044 | | - |
| Accounts receivable | | | 274,804 | | 101,414 |
| Cash | | | 5,049,797 | | 5,877,244 |
| Total current assets | | | 5,364,238 | | 6,010,605 |
| **Total assets** | | $ | 6,445,011 | $ | 7,033,206 |
| **Shareholders' Equity** | | | | | |
| Share capital | 6 | $ | 10,190,960 | $ | 10,190,960 |
| Reserves | 6 | | 1,247,685 | | 1,166,240 |
| Deficit | | | (5,282,608) | | (4,912,367) |
| Total shareholders' equity | | | 6,156,037 | | 6,444,833 |
| **Liabilities** | | | | | |
| Due to related parties | 7 | | 26,386 | | 18,839 |
| Accounts payable and accrued liabilities | | | 262,588 | | 569,534 |
| Total current liabilities | | | 288,974 | | 588,373 |
| **Total shareholders' equity and liabilities** | | $ | 6,445,011 | $ | 7,033,206 |

These consolidated financial statements are authorized for issue by the Board of Directors on May 29, 2012.

They are signed on the Company's behalf by:

/s/Milton Cox
Director

/s/Mark T. Brown
Director

See notes to condensed consolidated interim financial statements

# BIG SKY PETROLEUM CORPORATION

*(formerly Fox Resources Ltd.)*
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
For the three months ended March 31
(Expressed in US dollars)
(Unaudited)

| | | 2012 | | 2011 |
|---|---|---|---|---|
| **Exploration and evaluation expenses** | | | | |
| Intangible completion | $ | 90,436 | $ | - |
| Intangible drilling | | 15,959 | | 30,965 |
| Management-Field Operations | | 8,500 | | - |
| Land Management | | 7,000 | | - |
| Engineering and geological | | 4,169 | | - |
| Lease operating | | 2,105 | | - |
| | | (128,169) | | (30,965) |
| **General and administrative expenses** | | | | |
| Professional fees | | 148,425 | | 12,954 |
| Office and administrative | | 67,653 | | 5,913 |
| Travel | | 16,410 | | 16,001 |
| Transfer agent, listing and filing fees | | 11,737 | | 12 |
| Investor relations | | 8,721 | | - |
| | | (252,946) | | (34,880) |
| **Other items** | | | | |
| Other income | | 13,675 | | - |
| Interest income | | 5,541 | | - |
| Foreign exchange gain (loss) | | (8,342) | | - |
| | | 10,874 | | - |
| **Net Loss** | | (370,241) | | (65,845) |
| Exchange differences on translation of foreign operations | | 81,445 | | - |
| **Total comprehensive loss for the period** | $ | (288,796) | $ | (65,845) |
| **Basic and diluted loss per share** | $ | (0.00) | $ | (0.02) |
| **Weighted average number of common shares outstanding** | | 60,676,665 | | 3,204,445 |

See notes to condensed consolidated interim financial statements

# BIG SKY PETROLEUM CORPORATION

*(formerly Fox Resources Ltd.)*

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in US dollars)

| | | | | Reserves | | | | |
|---|---|---|---|---|---|---|---|---|
| Issued and outstanding: | Notes | Number of Shares | Share Capital | Equity-settled Employee Benefits | Finder's Warrants | Foreign Currency Translation | Deficit | Total Shareholders' Equity |
| **Balance as at December 31, 2010** (Audited) | | **-** | **$ -** | **$ -** | **$ -** | **$ -** | **$ (225,305)** | **$ (225,305)** |
| Capital contribution | | - | - | - | - | - | 225,305 | 225,305 |
| Reorganization due to reverse takeover acquisition | 4 | 6,326,667 | 2,145,246 | - | - | - | - | 2,145,246 |
| Shares issued: | | | | | | | | |
| Shares issued in reverse takeover acquisition | 4 & 6(b)(ii) | 27,000,000 | - | - | - | - | - | - |
| Shares issued to lenders | 4 & 6(b)(ii) | 1,350,000 | 457,758 | - | - | - | - | 457,758 |
| Private placement | 6(b)(i) | 25,714,285 | 8,719,200 | - | - | - | - | 8,719,200 |
| Shares issued for finder's fees | 6(b)(i) | 285,713 | 96,880 | - | | - | - | 96,880 |
| Share issue costs | 6(b)(i) | - | (1,228,124) | - | 686,976 | - | - | (541,148) |
| Share-based payments | | - | - | 375,219 | - | | | 375,219 |
| Net loss and comprehensive loss for the year | | - | - | - | - | 104,045 | (4,912,367) | (4,808,322) |
| **Balance as at December 31, 2011** (Audited) | | 60,676,665 | 10,190,960 | 375,219 | 686,976 | 104,045 | (4,912,367) | 6,444,833 |
| Net loss and comprehensive loss for the period | | - | - | - | - | 81,445 | (370,241) | (288,796) |
| **Balance as at March 31, 2012** (Unaudited) | | **60,676,665** | **$10,190,960** | **$ 375,219** | **$686,976** | **$ 185,490** | **$(5,282,608)** | **$ 6,156,037** |

See notes to condensed consolidated interim financial statements

# BIG SKY PETROLEUM CORPORATION

*(formerly Fox Resources Ltd.)*

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
For the three months ended March 31
(Expressed in US dollars)
(Unaudited)

| | 2012 | 2011 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss | $ (370,241) | $ (65,845) |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (173,053) | (198,105) |
| Prepaid expenses | (6,412) | (5,000) |
| Accounts payable and accrued liabilities | (310,051) | 12,216 |
| Due from/to related party | 6,077 | - |
| | (853,680) | (256,734) |
| **Investing activities** | | |
| Oil and natural gas properties | (58,172) | (738,094) |
| | (58,172) | (738,094) |
| **Financing activities** | | |
| Capital contribution (distribution) | - | 222,685 |
| Proceeds from loans | - | 1,263,990 |
| | - | 1,486,675 |
| Effects of exchange rate changes on behalf of cash held in foreign currencies | 84,405 | - |
| **Change in cash** | (827,447) | 491,847 |
| **Cash, beginning of period** | 5,877,244 | - |
| **Cash, end of period** | $ 5,049,797 | $ 491,847 |
| **Supplemental cash flow information:** | | |
| Interest received | $ - | $ - |
| Interest paid | $ - | $ - |

See notes to condensed consolidated interim financial statements

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Big Sky Petroleum Corporation (the “Company”), formerly Fox Resources Ltd. (“Fox”), 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.

On November 30, 2011, the Company completed the acquisition of Big Sky Operating LLC (“Big Sky”) by way of a reverse takeover acquisition (Note 4), changed to its current name Big Sky Petroleum Corporation and resumed trading under the symbol “BSP” on December 1, 2011 as an oil and gas company in the exploration stage. As a result of the reverse takeover acquisition, the Company is the legal parent and accounting subsidiary while Big Sky is the legal subsidiary and accounting parent. These consolidated financial statements present the historic financial position, results of operations and cash flows of Big Sky, for all prior periods up to and including November 30, 2011. The results of operations from December 1, 2011 forward include both Fox and Big Sky.

The Company is engaged in the exploration and development of oil and gas in Montana’s Alberta Basin, commonly referred to as the Bakken source system. The address of the Company’s registered office is Suite 1500, 1055 West Georgia Street, Vancouver, BC, Canada, V6E 4N7.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company reported a net loss of $370,241 for the three months ended March 31, 2012 (2011 - $65,845) and had an accumulated deficit of $5,282,608 at March 31, 2012 (December 31, 2011 - $4,912,367). The Company has no source of operating revenues and its capacity to operate as a going concern in the near-term will likely depend on its ability to continue raising equity financing.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statement of financial position. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The current market conditions and volatility increase the uncertainty of the Company’s ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

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

### (b) Basis of preparation

These condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2011 consolidated annual financial statements.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation.

*New accounting standards and interpretations*

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2012 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

- IFRS 9 (Amended 2010) Financial Instruments (effective January 13, 2013)
- IFRS 10 (Issued 2011) Consolidated Financial Statements (effective January 2013)
- IFRS 11 (Issued 2011) Joint Arrangements (effective January 2013)
- IFRS 12 (Issued 2011) Disclosure of Interest in Other Entities (effective January 2013)
- IFRS 13 (Issued 2011) Fair value Measurement (effective January 2013)
- IAS 1 (Amended 2011) Presentation of Financial Statements (effective July 1, 2012)
- IAS 19 (Amended 2011) Employee Benefits (effective January 1, 2013)
- IAS 27 (Reissued 2011) Separate Financial Statements (effective January 1, 2013)
- IAS 28 (Reissued 2011) Investments in Associates and Joint Ventures (effective January 1, 2013)

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position.

(Expressed in US dollars, unless otherwise indicated)

## 3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements have been prepared in accordance with IFRS as issued by the IASB on a basis consistent with those followed in the Company's most recent annual financial statements for the year ended December 31, 2011.

These unaudited interim financial statements do not include all note disclosures required by IFRS for annual financial statements, and therefore should be read in conjunction with the annual financial statements for the year ended December 31, 2011. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012

## 4. REVERSE TAKEOVER ACQUISITION

On November 30, 2011, the Company acquired all of the issued and outstanding interests of Big Sky in exchange for 27,000,000 shares (the "Acquisition"). Big Sky, a Montana limited liability company, is the legal and beneficial owner of certain oil and gas interests in Toole and Glacier counties, Montana, USA, of which Big Sky has a 33.33% working interest.

As a result of the share exchange described above, control of the combined companies passed to the former shareholders of Big Sky, resulting in a reverse takeover acquisition. A reverse takeover acquisition involving a non-public enterprise and a non-operating public enterprise is accounted for as a capital transaction with Big Sky being identified as the accounting acquirer and the equity consideration being measured at fair value. That is, the transaction is equivalent to the issuance of shares by Big Sky for the net assets of the Company, accompanied by a recapitalization of Big Sky.

The net assets at estimated fair values that were acquired by Big Sky resulted in a charge to the consolidated statement comprehensive loss as follows:

| | |
|---|---|
| Net assets acquired | $ 925,796 |
| Consideration of common shares deemed to be issued | 2,145,246 |
| Transaction costs | $ 1,219,450 |

In connection with the Acquisition, the Company completed a non-brokered private placement of 25,714,285 subscription receipts at a price of Cdn$0.35 per subscription receipt for gross proceeds of $8,719,200 (Cdn$9,000,000) (Note 6(b)(i)).

In conjunction with the Acquisition, the Company also issued 1,350,000 common shares to the lenders of Big Sky at Cdn$0.35 for $457,758 and used the proceeds from the non-brokered private placement to repay a $4 million loan and $493,007 in interest and financing charges.

## 5. OIL AND NATURAL GAS PROPERTIES

The Company 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.

### (a) Somont Farm-In Package

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 property located in Toole County, Montana known as the Somont Farm-In Package.

Big Sky has purchased the contractual rights to earn farm-out acreage within drillsite spacing units, on a well by well basis, with a continuous drilling obligation.

The initial obligation well has been drilled, and the two subsequent wells are tied to a 180-day drilling obligation clock that starts at the spud of the previous well. The second well was drilled in November 2011. 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 Big Sky elects to discontinue drilling additional wells. However, the Farm-out Agreement will terminate and Big Sky will lose the right to earn additional acreage if drilling ceases.

### (b) Americana Acreage Block

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 property known as American Acreage Block.

### (c) FX Block

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 property located in Glacier County, Montana known as the FX Block.

(Expressed in US dollars, unless otherwise indicated)

## 5. OIL AND NATURAL GAS PROPERTIES (Continued)

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 in the Alberta Bakken region of Montana with an undivided 33 1/3% interest each.

The amounts shown represent costs incurred to date, and do not necessarily represent present or future values as these are entirely dependent upon the economic recovery of future oil and natural gas reserves. A summary of current property interests are as follows:

| | Balance January 1, 2011 | Expenditures | Balance December 31, 2011 | Expenditures | Balance March 31, 2012 |
|---|---|---|---|---|---|
| **Oil and natural gas properites** | | | | | |
| Leasehold costs | $ - | $ - | $ 993,140 | $ 57,187 | $ 1,050,327 |
| Lease and well equipment | - | - | 29,461 | - | 29,461 |
| Office equipment | - | - | - | 985 | 985 |
| TOTAL | $ - | $ - | $ 1,022,601 | $ 58,172 | $ 1,080,773 |

## 6. SHARE CAPITAL AND RESERVES

### (a) Authorized

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

### (b) Details of issuances of common shares

(i) On November 30, 2011, the Company completed a non-brokered private placement of 25,714,285 Subscription Receipts at a price of Cdn$0.35 per Subscription Receipt for gross proceeds of $8,719,200 (Cdn$9,000,000). Each Subscription Receipt was converted, at no additional consideration, into one Unit. Each Unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one additional common share at Cdn$0.66 until September 30, 2012 and Cdn$0.80 until September 30, 2013.

The Company paid the following finder's fees: (a) finder's warrants, entitling the holder to purchase up to 1,830,070 Units at Cdn$0.35 per Unit until September 30, 2013; (b) cash finder's fee of $399,553 (Cdn$412,420); and (c) 285,713 Units in lieu of $96,880 (Cdn$100,000) cash finder's fee. The Company paid other share issue costs of $44,715.

All securities issued were subject to a four-month hold period expired on February 1, 2012.

(Expressed in US dollars, unless otherwise indicated)

**6. SHARE CAPITAL AND RESERVES** (Continued)

**(b) Details of issuances of common shares** (Continued)

(ii) On November 30, 2011, the Company received approval from the Exchange and completed the Acquisition. The Company issued 27,000,000 common shares to members of Big Sky and 1,350,000 common shares to lenders of Big Sky.

**(c) Escrow shares**

Pursuant to the terms of escrow agreements dated November 21, 2011, among the Company, CIBC Mellon Trust Company and certain escrowed security holders, a total of 27,765,667 common shares have been placed in escrow pursuant to Exchange policy, whereby 10% was released from escrow on November 30, 2011, and the balance of shares will be released from escrow in equal tranches of 15% every six months thereafter.

As at March 31, 2012, 24,989,100 common shares of the Company are held in escrow.

**(d) Stock options**

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

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

| Expiry date | Exercise Price ($CDN) | December 31, 2011 | Issued | Exercised | March 31, 2012 |
|---|---|---|---|---|---|
| May 21, 2013 | $ 0.30 | 123,333 | - | - | 123,333 |
| August 18, 2013 | $ 0.30 | 50,000 | - | - | 50,000 |
| December 1, 2016 | $ 0.35 | 1,470,000 | | | 1,470,000 |
| Options outstanding and exercisable | | 1,643,333 | - | - | 1,643,333 |
| Weighted average exercise price ($CDN) | | $ 0.34 | - | - | $ 0.34 |

At March 31, 2012, the weighted average remaining contractual life of the stock options was 4.31 (December 31, 2011 – 4.56) years.

(Expressed in US dollars, unless otherwise indicated)

## 6. SHARE CAPITAL AND RESERVES (Continued)

### (e) Warrants

The contiuity of warrants for the three months ended March 31, 2012 is as follows:

| Expiry date | Exercise price ($CDN) | December 31, 2012 | Issued | Exercised | March 31, 2012 |
|---|---|---|---|---|---|
| October 25, 2012 | $ 0.45 | 1,560,000 | - | - | 1,560,000 |
| September 30, 2013 | $ 0.66/0.80* | 25,999,998 | - | | 25,999,998 |
| Warrants outstanding | | 27,559,998 | - | - | 27,559,998 |
| Weighted average exercise price ($CDN) | | $ 0.65 | - | - | $ 0.65 |

*The first exercise price is for the first year and the second exercise price is for the second year.

At March 31, 2012, the weighted average remaining contractual life of the warrants is 1.45 (December 31, 2011 – 1.70) years.

### (f) Finder's Unit Warrants

Finder's Unit warrants transactions and the number of Finder's Unit warrants outstanding are as follows:

| Expiry date | Exercise price ($CDN) | December 31, 2011 | Issued | Exercised | March 31, 2012 |
|---|---|---|---|---|---|
| October 25, 2012 (1) | $ 0.30 | 198,000 | - | - | 198,000 |
| September 30, 2013 (2) | $ 0.35 | 1,830,070 | - | | 1,830,070 |
| Finder's unit warrants outstanding | | 2,028,070 | - | - | 2,028,070 |
| Weighted average exercise price ($CDN) | | $ 0.35 | - | - | $ 0.35 |

(1) Each Finder's Unit warrant entitles the holder to purchase up to 198,000 units until October 25, 2012, at a price of Cdn$0.30 per unit. Each Unit consists of one common share and one-half of one non-transferable common share purchase warrant at a price of Cdn$0.45 per common share expiring October 25, 2012. A fair value of $59,000 was assigned to the finder's unit warrants using the Black-Scholes and Geske option pricing models. The assumptions used were a risk-free interest rate of 2.0%, an expected life of 1.5 years, annualized volatility of 91.3%, and a dividend yield of 0%. Upon the Acquisition, such fair value was eliminated as part of the net assets acquired.

(Expressed in US dollars, unless otherwise indicated)

## 6. SHARE CAPITAL AND RESERVES (Continued)

### (f) Finder's Unit Warrants (Continued)

(2) Each Finder's Unit warrant entitles the holder to purchase up to 1,830,070 units until September 30, 2013, at a price of Cdn$0.35 per unit. Each Unit consists of one common share and one non-transferable common share purchase warrant at a price of Cdn$0.66 per common share until September 30, 2012 and Cdn$0.80 per common share until September 30, 2013. A fair value of $686,976 was assigned to the finder's unit warrants using the Black-Scholes and Geske option pricing models. The assumptions used were a risk-free interest rate of 0.9%, an expected life of two years, annualized volatility of 94.0% and a dividend rate of 0%.

At March 31, 2011, the weighted average remaining contractual life of the finder's unit warrants is 1.41 (December 31, 2011 – 1.66) years.

## 7. RELATED PARTY TRANSACTIONS AND BALANCES

The aggregate value of key management compensation is as follows:

For the three months ended March 31, 2012:

| | 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 | $ - | $ - | $ - |

For the three months ended March 31, 2011:

| | 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 | $ - | $ - | $ - |

(Expressed in US dollars, unless otherwise indicated)

## 7. **RELATED PARTY TRANSACTIONS AND BALANCES** (Continued)

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

For the three months ended March 31, 2012:

| | Consulting Fees and Other |
|---|---|
| CodeAmerica Investments LLC. [a] | $ 30,000 |
| CNC Holdings Ltd.[b] | $ 30,000 |
| SVI Security Solutions [c] | $ 1,360 |
| Pacific Opportunity Capital Ltd. [d] | $ 33,963 |

For the three months ended March 31, 2011:

| | Consulting Fees and Other |
|---|---|
| CodeAmerica Investments LLC. [a] | $ - |
| CNC Holdings Ltd.[b] | $ - |
| SVI Security Solutions [c] | $ - |
| Pacific Opportunity Capital Ltd. [d] | $ - |

Amounts due to (from) related parties as at:

| | Services for | March 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Pacific Opportunity Capital Ltd. | Rent, accounting and consulting services | $ 26,386 | $ 18,839 |
| SVI Security Solutions | Web hosting and internet service | (1,044) | Nil |
| | | $ 25,342 | $ 18,839 |

(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) SVI Security Solutions, a company of which 32.5% is owned by the Chief Executive Officer of the Company, charged for web hosting and internet service fees.

(d) 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.

## 8. FINANCIAL INSTRUMENTS

The fair values of the Company's 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 $537,000 (December 31, 2011- $4,622,000) denominated in Canadian dollars. A 6% change in the absolute rate of exchange in US dollars would affect its net loss by $32,000.

### (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. 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 $30,000.

## 9. 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 period and the Company is not subject to any externally imposed capital requirements.

(Expressed in US dollars, unless otherwise indicated)

## 10. SEGMENTED INFORMATION

The Company is engaged in one business activity, oil and natural gas exploration. The two key geographical segments are Canada and United States. The Company has no discontinued operations.

Summarized financial information for the geographic segments the Company operates in are as follows:

| | Canada | US | Total |
|---|---|---|---|
| **As at March 31, 2012** | | | |
| Assets | | | |
| Oil and natural gas properties | $ - | $ 1,080,773 | $ 1,080,773 |
| Prepaid expenses | 8,814 | 29,779 | 38,593 |
| Due from related party | - | 1,044 | 1,044 |
| Accounts receivable | 11,166 | 263,638 | 274,804 |
| Cash | 2,939,535 | 2,110,262 | 5,049,797 |
| | $ 2,959,515 | $ 3,485,496 | $ 6,445,011 |
| **As at December 31, 2011** | | | |
| Assets | | | |
| Oil and natural gas properties | $ - | $ 1,022,601 | $ 1,022,601 |
| Prepaid expenses | 10,335 | 21,612 | 31,947 |
| Accounts receivable | 14,957 | 86,458 | 101,415 |
| Cash | 4,948,325 | 928,918 | 5,877,243 |
| | $ 4,973,617 | $ 2,059,589 | $ 7,033,206 |
| **For the three months ending March 31, 2012** | | | |
| Loss for the period | $ (76,397) | $ (293,844) | $ (370,241) |
| Capital expenditures | $ - | $ (58,172) | $ (58,172) |
| **For the three months ending March 31, 2011** | | | |
| Loss for the period | $ - | $ (65,845) | $ (65,845) |
| Capital expenditures | $ - | $ - | $ - |

## 11. SUBSEQUENT EVENT

Subsequent to March 31, 2012, the Company and its two Joint Participation Agreement partners sold 26,000 acres and received approximately $650,000, of which the Company has one-third interest.