(formerly Fox Resources Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Expressed in US Dollars)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BIG SKY PETROLEUM CORPORATION
(formerly Fox Resources Ltd.)

We have audited the accompanying consolidated financial statements of Big Sky Petroleum Corporation which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Big Sky Petroleum Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP
Chartered Accountants

Vancouver, British Columbia
April 10, 2013

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BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31
(Expressed in US dollars)

	Notes		2012		2011
Assets					
Oil and natural gas properties	5	$	1,389,438	$	1,022,601
Reclamation bond	5		25,000		-
Total non-current assets			1,414,438		1,022,601
Prepaid expenses			12,041		31,947
Accounts receivable			48,780		101,414
Cash and cash equivalents			3,754,366		5,877,244
Total current assets			3,815,187		6,010,605
Total assets		$	5,229,625	$	7,033,206
Shareholders' Equity					
Share capital	6	$	10,190,960	$	10,190,960
Reserves	6		1,262,595		1,166,240
Deficit			(6,319,159)		(4,912,367)
Total shareholders' equity			5,134,396		6,444,833
Liabilities					
Due to related parties	7		26,500		18,839
Accounts payable and accrued liabilities			68,729		569,534
Total current liabilities			95,229		588,373
Total shareholders' equity and liabilities		$	5,229,625	$	7,033,206

These consolidated financial statements are authorized for issue by the Board of Directors on April 10, 2013.

They are signed on the Company's behalf by:

/s/Milton Cox
Director

/s/Mark T. Brown
Director

See notes to consolidated financial statements

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR YEARS ENDED DECEMBER 31
(Expressed in US dollars)

	Notes		2012		2011
Exploration and evaluation expenses		$	(451,618)	$	(1,858,684)
General and administrative expenses					
Wages	7		289,897		115,741
Accounting, audit and legal fees	7		237,020		212,201
Office and administrative			189,640		116,676
Travel			154,192		91,718
Investor relations			29,888		1,107
Transfer agent, listing and filing fees			27,391		41,657
Share-based payments	6(d)&7		8,229		375,219
			(936,257)		(954,319)
Other items					
Gain on sale of oil & natural gas properties	5		73,059		-
Other income			-		44,000
Interest income			11,524		15,048
Acquisition cost	4		-		(1,219,450)
Finance expense	4		-		(950,765)
Foreign exchange gain / (loss)			(13,377)		11,803
Write-off of oil and natural gas properties	5		(90,123)		-
			(18,917)		(2,099,364)
Net Loss			(1,406,792)		(4,912,367)
Exchange differences on translation of foreign operations			88,126		104,045
Total comprehensive loss for the year		$	(1,318,666)	$	(4,808,322)
Basic and diluted loss per share		$	(0.02)	$	(0.49)
Weighted average number of common shares outstanding			60,676,665		9,959,133

See notes to consolidated financial statements

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

CONSOLIDATED 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		**-**	**$ -**	**$ -**	**$ -**	**$ -**	**$ (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	4 & 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		60,676,665	10,190,960	375,219	686,976	104,045	(4,912,367)	6,444,833
Share-based payments	6(d)	-	-	8,229	-	-	-	8,229
Net loss and comprehensive loss for the year		-	-	-	-	88,126	(1,406,792)	(1,318,666)
Balance as at December 31, 2012		**60,676,665**	**$10,190,960**	**$ 383,448**	**$686,976**	**$ 192,171**	**$(6,319,159)**	**$ 5,134,396**

See notes to consolidated financial statements

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31
(Expressed in US dollars)

		2012		2011
Cash provided by (used in)				
Operating activities				
Net loss for the year	$	(1,406,792)	$	(4,912,367)
Items not affecting cash:				
Share-based payments		8,229		375,219
Acquisition cost		-		1,219,450
Finance expense		-		457,758
Depreciation		11,195		-
Write-off of oil and natural gas properties		90,123		-
Gain on sale of oil and natural gas properties		(73,059)		-
		(1,370,304)		(2,859,940)
Changes in non-cash working capital items:				
Accounts receivable		53,009		(90,067)
Prepaid expenses		20,167		(31,947)
Accounts payable and accrued liabilities		(504,275)		537,506
Due from/to related party		7,186		(203,804)
Net cash flows used in operating activities		(1,794,217)		(2,648,252)
Investing activities				
Oil and natural gas properties		(622,755)		(1,022,601)
Reclamation bond		(25,000)		-
Proceeds from disposal of oil and natural gas properties		227,661		-
Cash acquired in reverse takeover acquisition		-		943,815
Net cash flows used in investing activities		(420,094)		(78,786)
Financing activities				
Capital contribution		-		225,305
Proceed from loans		-		5,164,000
Repayment on loans		-		(5,164,000)
Net proceeds from issuance of shares		-		8,274,932
Net cash flows provided by financing activities		-		8,500,237
Effects of exchange rate changes on cash held in foreign currencies		91,433		104,045
Change in cash		(2,122,878)		5,877,244
Cash and cash equivalents, beginning of year		5,877,244		-
Cash and cash equivalents, end of year	$	3,754,366	$	5,877,244
Supplemental cash flow information:				
Interest received	$	-	$	13,756
Interest paid	$	-	$	418,209

See notes to consolidated 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 of 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 as well as the Texas Midland Basin prospect located in the southeastern portion of the prolific Permian Basin in west Texas. The address of the Company's registered office is Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These consolidated 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. However, there are several conditions that cast significant doubt on the Company's ability to continue as a going concern, including that, 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 $1,406,792 for the year ended December 31, 2012 (2011 - $4,912,367) and had an accumulated deficit of $6,319,159 at December 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 consolidated 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 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 consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting. The accounting policies set out in Note 3 have been applied consistently in all material respects.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the December 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 *Financial Instruments* (2010)

This is a revised version 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 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.

2. BASIS OF PREPARATION (Continued)

(b) Basis of preparation (Continued)

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 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 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.

2. BASIS OF PREPARATION (Continued)

(b) Basis of preparation (Continued)

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

- **Significant judgments and assumptions** - such as how control, joint control, 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 that further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

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

2. BASIS OF PREPARATION (Continued)

(b) Basis of preparation (Continued)

IAS 19 *Employee Benefits* (2011)

This is an amended version with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes.

The key amendments include:

- Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of re-measurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the “corridor approach” permitted by the existing IAS 19)
- Introducing enhanced disclosures about defined benefit plans
- Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits
- Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs, and risk-sharing and conditional indexation features
- Incorporating other matters submitted to the IFRS Interpretations Committee.

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

IAS 27 *Separate Financial Statements* (2011)

This amended version of IAS 27 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 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).

IAS 28 *Investments in Associates and Joint Ventures* (2011)

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 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.

2. BASIS OF PREPARATION (Continued)

(c) Significant account judgments and estimates

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 year. 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:

Critical judgments

- The analysis of the functional currency for each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent, management considered both the funds from financing activities and the currency in which goods and services are paid. The Company chooses to report in US dollars as the presentation currency.

Estimates

- 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 consolidated statement of comprehensive loss, and composition of deferred income tax assets and liabilities included in the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Big Sky, the accounting parent, and its 100% wholly-owned legal subsidiaries, and Fox, the legal parent and accounting subsidiary, as follows:

	% of Ownership	Jurisdiction	Principal Activity
Big Sky Petroleum Corporation	Legal parent	Canada	Publicly traded entity
Big Sky Operating, LLC	100% legal subsidiary	USA	Exploration company
BSP Operating, LLC	100% legal subsidiary	USA	Exploration company

Inter-company balances and transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currencies

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar, and accounts denominated in currencies other than the Canadian dollar have been translated as follows:

- Monetary assets and liabilities at the exchange rate at the consolidated statement of financial position date;
- Non-monetary assets and liabilities at the historical exchange rates, unless such items are carried at fair value, in which case they are translated at the date when the fair value was determined;
- Shareholders' equity items at historical exchange rates; and
- Revenue and expense items at the rate of exchange in effect on the transaction date.

The Company's presentation currency is the United States dollar. For presentation purposes, all amounts are translated from the Canadian dollar functional currency to the United States dollar presentation currency for each period using the exchange rate at the end of each reporting period.

Exchange gains and losses arising from translation to the Company's presentation currency are recorded as exchange differences on translation of foreign operations, which is included in other comprehensive income (loss).

(c) Oil and natural gas properties

The Company is in the exploration stage with respect to its investment in oil and natural gas properties. The Company capitalizes leasehold acquisition costs and licenses. These costs are accumulated in cost centres by property and are not subject to depletion until technical feasibility and commercial viability has been determined.

Exploration and evaluation expenditures are expensed as incurred, except for expenditures associated with the acquisition of oil and natural gas properties through a business combination or asset acquisition which are recognized as assets. Costs incurred before acquiring the legal right to explore in a specific area, drilling, geological and geophysical costs, and other operating costs are immediately charged to net loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Oil and natural gas properties (Continued)

Oil and natural gas properties are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped together with developing and producing assets and are tested at an aggregated cash-generating unit level. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its cash-generating units. The Company reviews the composition of its cash-generating units at each reporting date to assess whether any changes are required in light of new facts and circumstances.

The technical feasibility and commercial viability of extracting an oil or natural gas resource is considered to be determinable when proved and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, oil and natural gas properties attributable to those reserves are tested for impairment and reclassified from oil and natural gas properties to proven oil and natural gas properties.

Capitalized amounts are depleted using the units of production method. The depletion expense per unit of production would be the ratio of the sum of the unamortized historical costs and estimated future development costs to the Company's proved reserve volumes. Estimation of reserves relies on professional judgement and use of factors that cannot be precisely determined.

(d) Decommissioning obligations

The Company recognizes an estimate of the decommissioning obligation in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the decommissioning obligation is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The decommissioning obligation can also increase or decrease due to changes in the estimates of the timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the decommissioning obligation are charged against the decommissioning obligation to the extent of the liability recorded. At present the Company has determined that it has no material decommissioning obligations.

(e) Accounts receivable

Accounts receivable are recorded at fair value and do not bear interest. The Company determines the allowance based on management's estimate of probable credit losses, historical write-off experience, and industry and local economic data. The Company reviews its allowance for doubtful accounts on a monthly basis. Past due balances meeting specific criteria are reviewed individually for collectability. All other balances are reviewed on a pooled basis. When necessary, an allowance is established and account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Cash and cash equivalents

The Company has defined cash equivalents as short-term, highly liquid investments, with original maturities of less than 90 days.

(g) Financial instruments

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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

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

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in net loss.

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

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in net loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial instruments (Continued)

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in net loss.

All financial assets, except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in net loss.

Other financial liabilities - This category includes amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized initially at fair value, and carried subsequently at amortized cost.

(h) Share-based payments

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value of the option award is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company, in addition to the proportionate amount of reserves originally created at the issuance of the stock options or warrants. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to common shares based on the fair value of a common share at the announcement date of the unit offering and any residual value remaining is allocated to common share purchase warrants.

(j) Loss per share

The Company presents the basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(k) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income (loss).

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the financial position method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period-end date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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 of comprehensive loss as follows:

Net assets acquired	$ 925,796
Consideration of common shares deemed to be issued	2,145,246
Acquisition cost	$ 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 $4,000,000 loan and $493,007 in interest and financing charges.

5. OIL AND NATURAL GAS PROPERTIES

Montana Projects

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 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 was drilled, and the subsequent wells were tied to a 180-day drilling obligation clock that started 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 was no monetary penalty for Big Sky electing to discontinue drilling additional wells. The Farmout Agreement expired due to work commitments not being met. During the year ended December 31, 2012, the Company wrote-off $90,123 of its expenditures related to the Somont farm-in wells.

(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 the Americana 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.

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 33.33% interest each.

On April 30, 2012, the Company and its two joint Participation Agreement partners sold a portion of the leasehold and received $682,982, of which the Company has a one-third interest. The cost of leasehold sold was $154,602, resulting in a gain on sale of $73,059.

5. OIL AND NATURAL GAS PROPERTIES (Continued)

Texas Project

On November 28, 2012, the Company announced it entered the prolific Wolfcamp/Wolfberry play developing in the southern Midland Basin portion of the Permian Basin located in west Texas. The Company has acquired a 90% working interest in the property on the eastern shelf of the southern Midland Basin in west Texas.

As of December 31, 2012, the Company had a reclamation bond of $25,000 and is expected to be released after all reclamation work has been completed with regard to the Texas project.

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 is as follows:

Oil and natural gas properites	Balance January 1, 2011	Expenditures	Balance December 31, 2011	Expenditures/ write-off	Depreciation	Disposal	Balance December 31, 2012
Montana							
Leasehold costs	$ -	$ 993,140	$ 993,140	$ 102,827	$ -	$ (154,602)	$ 941,365
Lease and well equipment	-	29,461	29,461	-	(10,604)	-	18,857
Office equipment	-	-	-	985	(591)	-	394
Write-off of oil and natural gas properties	-	-	-	(90,123)	-	-	(90,123)
	-	1,022,601	1,022,601	13,689	(11,195)	(154,602)	870,493
Texas							
Leasehold costs	-	-	-	518,945	-	-	518,945
TOTAL	**$ -**	**$ 1,022,601**	**$ 1,022,601**	**$ 532,634**	**$ (11,195)**	**$(154,602)**	**$ 1,389,438**

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, which expired February 1, 2012.

(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 (note 4).

(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 December 31, 2012, 16,659,400 (2011 - 24,989,100) common shares of the Company are held in escrow.

6. SHARE CAPITAL AND RESERVES (Continued)

(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.

Expiry date	Exercise Price ($CDN)	December 31, 2011	Granted	Exercised	Expired	December 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
November 29, 2017	$ 0.12	-	80,000	-	-	80,000
Options outstanding and exercisable		1,643,333	80,000	-	-	1,723,333
Weighted average exercise price ($CDN)		$ 0.34	-	-	-	$ 0.33

Subsequent to December 31, 2012, a total of 100,000 stock options were granted to consultants with an exercise price of Cdn$ 0.12 per share, expiring January 7, 2018.

At December 31, 2012, the weighted average remaining contractual life of the stock options was 3.62 (2011 – 4.56) years.

The weighted average assumptions used to estimate the fair value of options for the years ended December 31, 2012 and 2011 using the Black-Scholes option pricing model are as follows:

	2012	2011
Risk-free interest rate	1.3%	1.4%
Annualized volatility	129%	101%
Expected dividend yield	Nil	Nil
Expected life of options	5 years	5 years

Share-based payments for the year ended December 31, 2012 was $8,229 (2011 - $375,219).

6. SHARE CAPITAL AND RESERVES (Continued)

(e) Warrants

Expiry date	Exercise price ($CDN)	December 31, 2012	Issued	Exercised	Expired	December 31, 2012
September 30, 2013	$ 0.80	25,999,998	-	-	-	25,999,998
October 25, 2013 [(1)]	$ 0.45	1,560,000	-	-	-	1,560,000
Warrants outstanding		27,559,998	-	-	-	27,559,998
Weighted average exercise price ($CDN)		$ 0.78	-	-	-	$ 0.78

[(1)] During the year ended December 31, 2012, 1,560,000 warrants granted on April 25, 2011 with an original expiry date of October 25, 2012, were extended to expire October 25, 2013.

At December 31, 2012, the weighted average remaining contractual life of the warrants is 0.75 (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	Expired	December 31, 2012
October 25, 2012	$ 0.30	198,000	-	-	198,000	-
September 30, 2013 [(1)]	$ 0.35	1,830,070	-	-	-	1,830,070
Finder's unit warrants outstanding		2,028,070	-	-	-	1,830,070
Weighted average exercise price ($CDN)		$ 0.35	-	-	$ 0.30	$ 0.35

[(1)] Each Finder's Unit warrant entitles the holder to purchase one unit 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 exercisable at a price of Cdn$0.80 until September 30, 2013. A fair value of $686,976 was assigned to the finder's unit warrants using the Black-Scholes option pricing model. 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 December 31, 2012, the weighted average remaining contractual life of the finder's unit warrants is 0.75 (2011 - 1.66) years.

7. RELATED PARTY TRANSACTIONS AND BALANCES

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

For the year ended December 31, 2012	Short-term employee benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director	$ 413,029	$ -	$ 413,029
Directors	61,000	8,229	69,229
Total	$ 474,029	$ 8,229	$ 482,258

For the year ended December 31, 2011	Short-term employee benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director	$ 86,490	$ 178,678	$ 265,168
Directors	-	51,046	51,046
Total	$ 86,490	$ 229,724	$ 316,214

Due to related parties	Services for	December 31, 2012	December 31, 2011
Company controlled by an officer	Rent, accounting and financial services	$23,640	$18,839
Company controlled by a director	Legal	2,860	Nil
Total		$26,500	$18,839

Other:
SVI Security Solutions, a company of which 32.5% is owned by the Chief Executive Officer of the Company, charged $4,986 (2011 - $Nil) for web hosting and internet service fees.

8. INCOME TAXES

a) Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 25% (2011 – US statutory rate of 34%) to income before income taxes. The reasons for the differences are as follows:

	2012	2011
Loss before tax	$ (1,406,792)	$ (4,912,367)
Statutory income tax rate	25%	34%
Expected income tax	(351,698)	(1,670,205)
Temporary differences	2,903	(42,723)
Permanent differences	2,063	1,116,213
Difference in foreign tax rates	(12,271)	63,190
Effect of change in tax rates	273,825	19,578
Unused tax losses and tax offsets not recognized	85,178	513,947
	$ -	$ -

b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met.

The company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2012	2011
Non-capital losses	$ 3,637,329	$ 2,141,708
Resource properties	159,465	44,036
Property Plant and Equipment	171	-
Share issue cost	365,206	478,659
	$ 4,162,171	$ 2,664,403

The Company's unrecognized unused tax losses to unused tax losses have the following expiry dates:

Non-capital losses, expiring as follows:

Available to	US	Canada	Total
2026	$ -	$ 22,119	$ 22,119
2027	-	40,141	40,141
2028	-	112,552	112,552
2029	-	112,883	112,883
2030	-	112,309	112,309
2031	912,508	871,709	1,784,217
2032	1,140,329	389,383	1,529,712
	$ 2,052,837	$ 1,661,096	$ 3,713,933

9. FINANCIAL INSTRUMENTS

The fair values of the Company's accounts receivable (net of HST receivable) and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments. The Company's cash is valued based on quoted market prices.

Amounts due to 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 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, which may adversely affect the Company's financial position, results of operations and cash flows. The Company has net monetary assets of $160,000 (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 $9,600.

(b) Credit risk

The Company's cash is held in a Canadian financial institution and a US financial institution. Credit risk is managed by using major banks that are high credit quality financial institutions as determined by ratings 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.

9. FINANCIAL INSTRUMENTS (Continued)

(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 $27,000.

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

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

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy.

December 31, 2012	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 3,754,366	$ -	$ -	$ 3,754,366

December 31, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 5,877,244	$ -	$ -	$ 5,877,244

10. 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.

11. 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 December 31, 2012			
Assets			
Oil and natural gas properties	$ -	$ 1,389,438	$ 1,389,438
Reclamation bond	$ -	$ 25,000	25,000
Prepaid expenses	10,595	1,446	12,041
Accounts receivable	5,846	42,934	48,780
Cash	2,697,059	1,057,307	3,754,366
	$ 2,713,500	$ 2,516,125	$ 5,229,625
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	86,457	101,414
Cash	4,948,325	928,919	5,877,244
	$ 4,973,617	$ 2,059,589	$ 7,033,206
For the year ending December 31, 2012			
Loss for the year	$ (266,464)	$ (1,140,328)	$ (1,406,792)
Capital expenditures	$ -	$ (622,755)	$ (622,755)
For the year ending December 31, 2011			
Loss for the year	$ (2,151,586)	$ (2,760,781)	$ (4,912,367)
Capital expenditures	$ -	$ (1,022,601)	$ (1,022,601)

12. SUBSEQUENT EVENT

On April 2, 2013, the Company entered into an investor relations agreement (“Services Agreement”) with Skyblue Relations (“Skyblue”). The term of the Services Agreement is for an initial three-month term effective March 15, 2013 with provision for extension for a one year period. The Company may terminate the Services Agreement at any time after June 15, 2013 by providing one month’s written notice.

Pursuant to the Services Agreement, the Company will pay Skyblue a monthly fee of $5,000 (plus HST), and will grant 150,000 incentive stock options to purchase 150,000 common shares exercisable at a price of $0.25 per share. The options will vest in quarterly increments, and will be exercisable until the earlier of one year from the date of grant and 90 days following termination of the Services Agreement.