Big Sky PETROLEUM

TSX-V: BSP

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BIG SKY PETROLEUM CORPORATION
(An Exploration Stage Company)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013

INTRODUCTION

This is Management's Discussion and Analysis ("MD&A") for Big Sky Petroleum Corporation ("Big Sky" or the "Company") and has been prepared based on information known to management as of April 25, 2014. This MD&A is intended to help the reader understand the consolidated financial statements of Big Sky.

The following information should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2013 and 2012 and related notes thereto, prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A provides a review of the performance of the Company for the year ended December 31, 2013. Additional information relating to the Company can be found on SEDAR www.sedar.com.

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

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

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

FORWARD LOOKING STATEMENTS

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

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

- Plans for exploration of the Company's oil and gas properties;
- Speculation on future commodity prices;
- Future budgets and how long the Company expects its working capital to last; and
- Management expectations of future activities and results.

ADDITIONAL INFORMATION

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

SUMMARY AND OUTLOOK

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

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

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

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

Big Sky is a Canadian oil and gas exploration company with U.S. operations in Texas and Montana. The Company is currently focused on the development of unconventional tight oil reservoirs in the Southern Midland Basin of West Texas.

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Management's overall expectations for the Company are based on the following:

- The Company's acquisition of a 3,400 + acre lease block in the Southern Midland Basin, a part of the prolific West Texas Permian Basin, while 900 acres have expired, 2,500 acres remain prospective.
- The price of oil has been at relatively high levels in recent months.
- The Company has completed a rollback, cut costs and is attempting to re-finance itself or find partners for its Texas project.

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1. Background

The Company was incorporated under the *Canada Business Corporations Act* on February 3, 2006 and, effective July 6, 2009, changed its continuance out of the federal jurisdiction into the British Columbia jurisdiction under the *Business Corporations Act* (British Columbia). The Company has been listed on the TSX Venture Exchange (the "TSX-V" or "Exchange") since May 5, 2006. Its shares began trading under the symbol "BSP" effective December 5, 2011.

2. Overview

(a) Company Mission and Focus

Big Sky is a North American oil and gas exploration company focused in the Southern Alberta Basin in Montana and the Southern Midland Basin in West Texas. The Company's mission is to explore and develop its oil and gas interest in these land packages as well as potentially growing its working interest in the areas.

(b) Non-GAAP Measures

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

(c) BOE Presentation

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

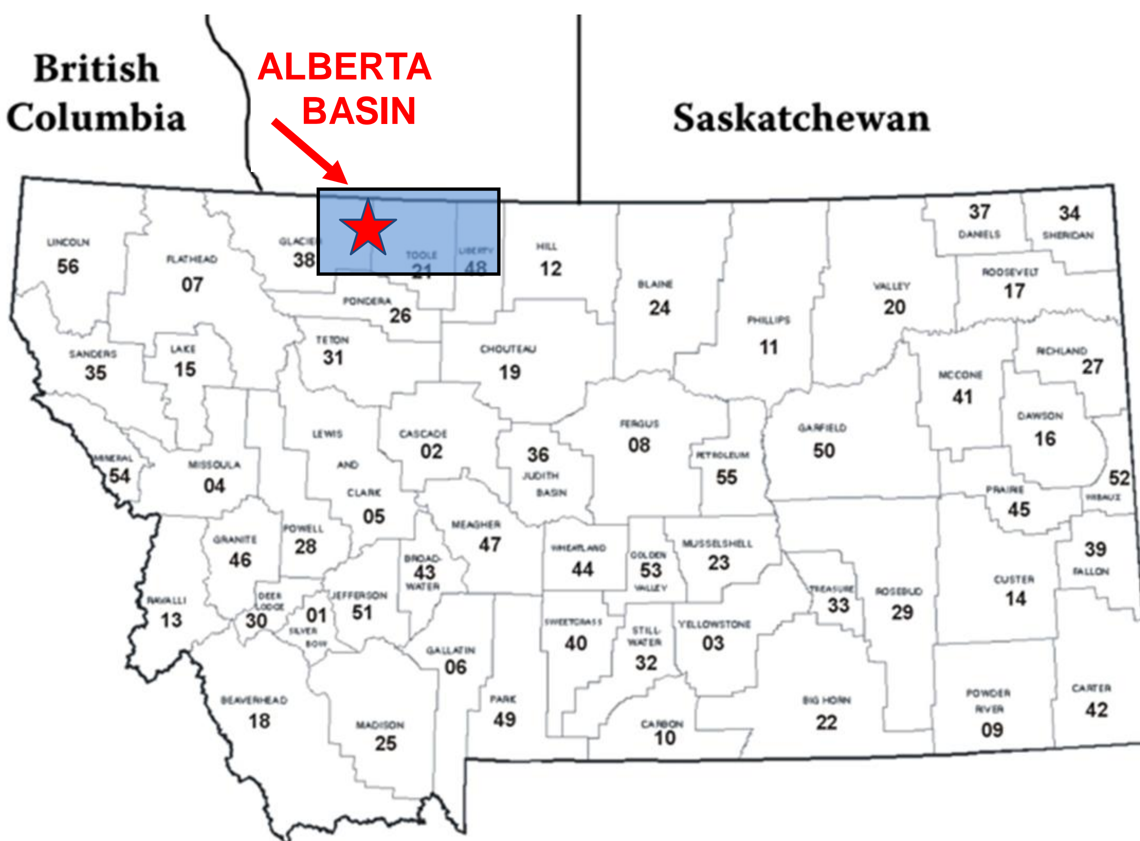
(d) Statement of Risk

The accuracy of reserve and economic evaluations is always subject to uncertainty. The magnitude of this uncertainty is generally proportional to the quantity and quality of data available for analysis. As a well matures and new information becomes available, revisions may be required which may either increase or decrease the previous reserve assignments. Sometimes these revisions may result not only in a significant change to the reserves and value assigned to a property, but also may impact the total company reserve and economic status. The reserves and forecasts contained in the NI 51-101 report and the extracts in this MD&A were based upon a technical analysis of the available data using accepted engineering principles. However, they must be accepted with the understanding that further information and future reservoir performance subsequent to the date of the estimate may justify their revision.

The Company, MHA Petroleum Consultants ("MHA") and Petrotech Engineering Ltd. ("Petrotech") make no warranties concerning the data and interpretations of such data. In no event shall the Company, MHA and Petrotech be liable for any special or consequential damages arising from the Company's or investors' and shareholders' use of MHA's and Petrotech's interpretation, reports, or services produced as a result of MHA's and Petrotech's work for the Company.

3. Oil and Gas Properties

(a) Montana



Big Sky was originally established for the purpose of acquiring oil and gas exploration opportunities, drilling and completing wells and acquiring oil and gas production with primary focus on the exploration and development of oil and gas in the Alberta Basin, commonly referred to as the Bakken source system.

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

On 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.

During 2012, the Company drilled 3 vertical wells and completed 1 horizontal well, with well 14-29 horizontally completed well producing live moveable oil, but not in commercial quantities.

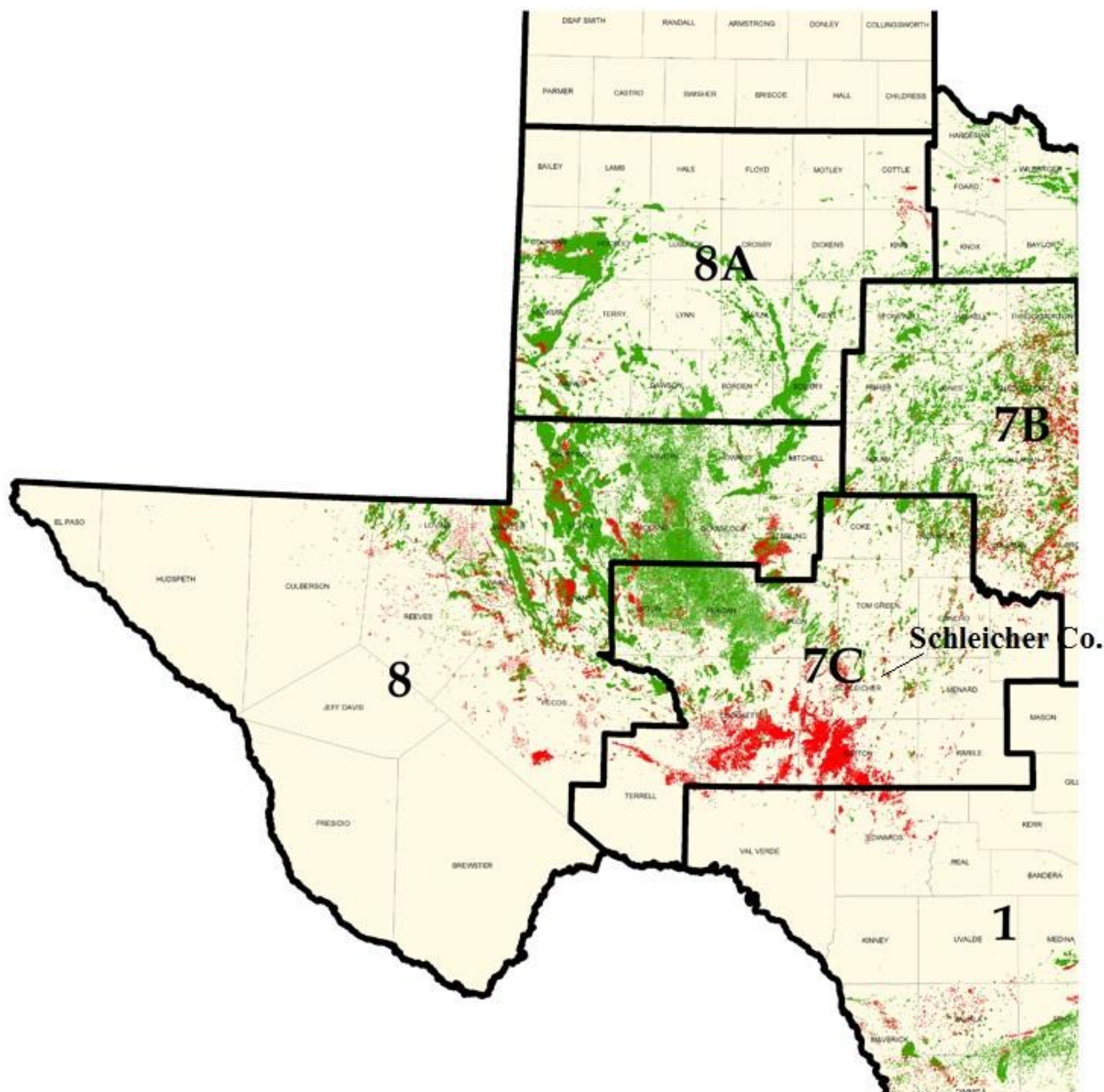
Big Sky continues to analyze the results of exploration work done in the past year (see news releases on February 13, 2012, March 20, 2012, and August 30, 2012). Agreements on the Somont Farm-In Package have expired due to work commitments not being met.

Under the Somont Farm-Out Agreement, there is no monetary penalty if Big Sky elects to discontinue drilling additional wells. As a result, the Farm-out Agreement has expired due to work commitments not being met and during the year ended December 31, 2012, the Company wrote-off $90,123 of its expenditures related to the Somont farm-in wells.

On April 30, 2013, Big Sky and its two joint Participation Agreement partners signed a Purchase and Sale Agreement with American Midwest Oil and Gas (“AMOG”) to sell certain of its oil and gas leasehold interests in Toole County Montana for a total Purchase Price of $642,292, of which the Company had a one-third interest. The cost of leasehold sold was $357,604, resulting in a loss on sale of $118,558.

Details of the Glacier Projects should be read in conjunction with the Technical Report dated December 31, 2012 prepared pursuant to NI 51-101 by MHA and entitled “Geological Assessment of the Glacier Prospect Area, Toole and Glacier Counties, Montana” which is available for review under the Company’s profile at www.sedar.com.

(b) Texas



Big Sky Petroleum's Leases in Permian Basin in Schleicher County, Texas

In November 2012, the Company entered the Wolfcamp/Wolfberry play currently developing in the Southern Midland Basin portion of the Permian Basin located in west Texas. Big Sky has acquired 90% working interest in an initial lease block of 2,300+ net operated acres on the eastern shelf of the southern Midland Basin in West Texas. On March 12, 2013, the Company acquired an additional 1,100 net operated acres, increasing the Southern Midland Basin to 3,400+ contiguous net operated acres with 90% working interest. The Company pays 100% of the drilling, completion, facilities and operating costs for the first three wells until payout of these costs, at which time a third party will back in for a 10% working interest. In subsequent wells, the third party will have the option to participate for a 10% working interest pursuant to the Joint Operation Agreement.

The Horizontal Wolfcamp

The Wolfcamp is a blanket formation across the Permian Basin of western Texas and acts as a source rock for much of the conventional oil production in the area. The Wolfcamp has multiple productive benches and generally varies in thickness from 800-1,200 feet, although some areas are up to 2,000 feet thick. The depth of the Wolfcamp formation is around 5,000 feet on the normally pressured southeastern side of the play. The productive limits of the play have not yet been established, but industry insiders believe the acreage prospective for the play currently covers more than 1 million acres, and this could reach 2+ million acres as more acreage is proved up. Initial Production ("IP") rates have averaged around 580 Boepd since the inception of the play, but have shown solid increases over time as completion techniques have improved and lateral lengths have increased. IP rates to date are averaging nearly 700 Boepd with estimated ultimate recoveries ("EUR's") of 450,000 – 500,000 BOE.

The Vertical Wolfberry

The Wolfberry is named such because of the comingling of production from the Wolfcamp and Spraberry Formations. The overall Wolfberry interval, which is the principal focus of Big Sky's vertical drilling activities, is an oil play that also includes a liquids-rich natural gas component. The gas produced by Wolfberry wells tends to be very rich, with energy content of 1,200-1,500 btu per cubic foot. Operators are experiencing IP's from 80 to 180 Boepd and estimate EUR's from 120,000 to 150,000 Bbls. Based on 40 acre spacing Big Sky has 57 Wolfberry drilling locations. The upside to this Wolfberry play is that several operators are now drilling on 20 acre spacing with no reports of communication between wellbores.

Exploration Activity

On April 29, 2013, the Company announced that its initial well drilled in Q1 2013, in the Schleicher Prospect ("Schafer No.1") a Wolfberry test was drilled to a total vertical depth (TVD) of 7,370 feet. The Schafer No.1 was completed with a six stage fracture stimulation on February 21, 2013, with a total of 34,000 barrels of fluid and 1,000,000 lbs of proppant. The well was placed on pump on April 10, 2013, and approximately 85% of the frac fluids were recovered. During the flow back period, 348 barrels of oil and 1,266 MCF of gas were recovered. The 30 day IP (Initial production) period test resulted in excessive amounts of water recovered from formations above the Wolfcamp. It has been determined that the water production was a result of a failed cement operation on the production casing. The well is currently shut-in.

The Company vertically drilled the Schafer No.1 well to 7,370' in Q2 to test for the Wolfcamp formation. The well was completed with multi-stage fracture treatments to assess the multiple hydrocarbon zones that were encountered in the wellbore. The Wolfcamp "A" section was identified from 4,140 to 4,540 feet. The Wolfcamp "B" section was identified from 4,540 to 6,340 feet. The well produced over 500 bbls of oil and flowed gas that was tested at 1,185 btu during the testing period. The well was successful in confirming the presence of the Wolfcamp formation on the Company's leashold. The well encountered a mechanical failure that caused an influx of water into the wellbore. While the well served its purpose in proving the presence of the Wolfcamp formation and proved that the Wolfcamp wells are horizontal completions, it was determined that it would not be prudent to invest more money into this well and an IP was not estimated.

Details of the Southern Midland Basin should be read in conjunction with the Technical Report dated February 28, 2013 prepared pursuant to NI 51-101 by Petrotech Engineering Ltd. entitled "Evaluation of the Interests of Big Sky Petroleum Corporation in the Oil & Gas Leases in Crockett & Schleicher Co., Texas" which is available for review under the Company's profile at www.sedar.com.

Big Sky is currently in discussions with potential partners about entering into a joint venture development program to finance further wells for the 2,500 acre Wolfcamp prospect. Activity in the surrounding areas continues at a brisk pace as more horizontal Wolfcamp wells are being drilled. Big Sky currently has spacing for 80 horizontal well completions based on two laterals per well location.

4. Risks and Uncertainties

General Conditions Relating to Oil Exploration and Production Operations

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

Exploration, Development and Production Risks

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

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

Future oil exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include: delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance

operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Oil exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to oil wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company may not fully insured against all of these risks, nor are all such risks insurable. Although the Company anticipates maintaining liability insurance in an amount that the Company considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon the Company's financial condition.

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

Environmental

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

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

Prices, Markets and Marketing

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

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

Availability of Drilling Equipment and Access

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

Competition

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

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil reserves and cash flows to be derived therefrom, including many factors beyond the Company's control. In general, estimates of economically recoverable oil reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from

the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves. Any recovery and reserves estimates on the properties are estimates only. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material. There is no assurance that any forecast price and cost assumptions contained in a reserve report will be attained and variances could be material. Actual future net cash flows will be affected by other factors such as actual production levels, supply and demand for oil, curtailments or increases in consumption by oil purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. Reserves data is therefore based on judgments regarding future events therefore, actual results will vary and variations may be material.

Title to Assets

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

Title Issues

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

Regulatory

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

Foreign Currency Rate Risk

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

Substantial Capital Requirements

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

Additional Funding Requirements

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

Issuance of Debt

From time to time the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may

increase the Company's debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. The Company's articles will not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Hedging

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

Reliance on Key Personnel

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

Conflicts of Interest

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

Insurance

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

insurer of such event, could have a material adverse effect on the Company's financial position, results of operations or prospects.

5. Impairment of Oil and Gas Properties

The Company completed an impairment analysis as at December 31, 2013 which considered the indicators of impairment. Management concluded that no impairment charge was required because:

- The Company obtained recent NI 51-101 reports supporting its properties;
- All property rights remain in good standing;
- Other operators in the Glacier Projects area have recently permitted five horizontal Bakken wells. If these wells were successful, certain data swap agreements currently in place with the other operators could be beneficial to Big Sky's development plans for this area;
- The Company takes the approach of expensing its exploration costs;
- The price of oil and gas is favorable; and
- The Company intends to continue its exploration and development plans on its Texas properties.

6. Material Financial and Operations Information

(a) Selected Annual Financial Information

Selected Annual Information

	Year ended December 31 2013	Year ended December 31 2012	Year ended December 31 2011
	$	$	$
Oil & gas revenue	-	-	-
Exploration and evaluation expenses	(2,981,009)	(451,618)	(1,858,684)
General and administrative expenses	(829,868)	(936,257)	(954,319)
Other income (expenses)	(429,196)	(18,917)	(2,099,364)
Net loss for the year	(4,240,073)	(1,406,792)	(4,912,367)
Loss per share	(0.70)	(0.23)	(0.49)
Total assets	1,889,231	5,229,625	7,033,206
Total long-term financial liabilities	250,000	-	-
Cash dividends declared – per share	N/A	N/A	N/A

(b) Summary of Quarterly Results

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

	Dec 31, 2013 Quarter	Sep 30, 2013 Quarter	Jun 30, 2013 Quarter	Mar 31, 2013 Quarter	**Dec 31, 2012 Quarter**	Sep 30, 2012 Quarter	Jun 30, 2012 Quarter	Mar 31, 2012 Quarter
Revenue	**-**	-	-	-	**-**	-	-	-
Net (loss)	**(527,814)**	(558,686)	(1,020,455)	(2,133,118)	**(409,190)**	(375,099)	(252,262)	(370,241)
Loss per Share	**(0.09)**	(0.09)	(0.17)	(0.35)	**(0.07)**	(0.06)	(0.04)	(0.06)

(c) Review of Operations and Financial Results

For the three months ended December 31, 2013 compared to the three months ended December 31, 2012

During the three months ended December 31, 2013, the Company incurred losses of $527,814 ($0.09 loss per share) compared to a net loss of $409,190 ($0.07 loss per share) for the same period in 2012.

During the three months ended December 31, 2013, the Company incurred $104,713 (2012 – $100,670) exploration and evaluation expenses. The exploration and evaluation expenses increased in 2013 because of the activities at the Schafer No.1 well in Texas during the current period while in 2012, the Company was exploring the Montana property with its Joint Participation Agreement partners.

During the three months ended December 31, 2013, the Company incurred $142,460 (2012 - $247,538) in general and administrative expenses, of which $739 relates to non-cash share-based payment expense for options vested in the current period of 2013 (2012 - $8,229). Excluding the non-cash item, the Company's general and administrative expenses amounted to $141,721, compared to 2012's $239,309, a decrease of $97,588. The decrease was mainly due to: (a) the decrease in wages to $50,799 (2012 - $72,463); (b) the decrease in office and administrative to $30,376 (2012 - $57,763); and (c) the decrease in travel to $Nil (2012 - $41,909); the other administrative expenditures varied over the periods but the overall effect of these variances war not material.

During the three months ended December 31, 2013, the Company wrote off $335,680 (2012 - $90,123) in oil and natural gas properties, also had gain on sale of oil and natural gas properties of $24,949 (2012 - $Nil), interest income of $Nil (2012 - $1,739), other income of $28,498 (2012 - $Nil), and foreign exchange gain of $1,592 (2012 – $27,402).

For the year ended December 31, 2013 compared to the year ended December 31, 2012

During the year ended December 31, 2013, the Company incurred losses of $4,240,073 ($0.70 loss per share) compared to a net loss of $1,406,792 ($0.23 loss per share) for the same period in 2012.

During the year ended December 31, 2013, the Company incurred $2,981,009 (2012 - $451,618) exploration and evaluation expenses. The exploration and evaluation expenses increased substantially in 2013 because of the activities at the Schafer No.1 well in Texas during the current period while in 2012, the Company was exploring the Montana property with its Joint Participation Agreement partners.

During the year ended December 31, 2013, the Company incurred $829,868 (2012 - $936,257) in general and administrative expenses, of which $14,039 relates to non-cash share-based payment expense for options vested in 2013 (2012 - $8,229). Excluding the non-cash item, the Company's general and administrative expenses amounted to $815,829, compared to 2012's $928,028, a decrease of $112,199. The decrease was mainly due to: (a) the decrease in wages to $264,169 (2012 - $289,897); (b) the decrease in office and administrative to $174,817 (2012 - $189,640); (c) the decrease in travel to $110,425 (2012 - $154,192); and (d) the decrease in accounting, audit and legal fees to $177,220 (2012 - $237,020); which were offset by (e) the increase in investor relations to $67,368 (2012 - $29,888). The other administrative expenditures varied over the periods but the overall effect of these variances war not material.

During the year ended December 31, 2013, the Company wrote off $335,680 (2012 - $90,123) in oil and natural gas properties, also had loss on sale of oil and natural gas properties of $118,558 (2012 – gain of $73,059), interest income of $3,268 (2012 - $11,524), other income of $36,845 (2012 - $Nil), and foreign exchange loss of $15,071 (2012 - $13,377).

(d) Liquidity and Capital Resources

The Company had a working capital deficiency of $660,846 as at December 31, 2013 (December 31, 2012 – working capital of $3,719,958). Cash totaled $52,250 as at December 31, 2013, a decrease of $3,702,116 from $3,754,366 as at December 31, 2012. The decrease was a result of: (a) $2,996,457 spent in operating activities including changes in working capital and exploration and evaluation expenses; and (b) $928,932 spent on its oil and natural gas properties acquisition costs; offset by (c) $214,097 proceed received from disposal of oil and natural gas properties; and (d) $9,176 effects of exchange rate changes on behalf of cash held in foreign currencies.

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

Management estimates that the current cash position and future cash flows from warrants, finders' warrants and options might not be sufficient for the Company to carry out its anticipated exploration and operating plans through 2014. The Company will therefore rely on debt or equity financing in 2014 to continue with its exploration and operating plans.

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

(e) Disclosure of Outstanding Share Data

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

	No. of Common Shares Issued & Outstanding	Share Capital Amount
December 31, 2012	6,067,667	$10,190,960
December 31, 2013	6,067,667	$10,190,960

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

On December 3, 2013, the Company consolidated its share capital on the basis of one new share for every 10 old shares. All references to the number of shares and per share amounts have been retroactively restated to reflect the consolidation.

During the year ended December 31, 2013, 50,000 options with exercise prices ranging from Cdn$1.20 to Cdn$2.50 were granted, 17,000 options with exercise prices ranging from Cdn$2.50 to Cdn$3.50 were cancelled, and another 17,333 options with exercise prices of Cdn$3.00 expired. Subsequent to December 31, 2013, another 20,000 options with exercise price of Cdn$3.50 were cancelled. As at December 31, 2013, the Company had a total of 188,000 options outstanding with exercise prices ranging from Cdn$1.20 to Cdn$3.50, expiring between October 17, 2016 and January 7, 2018. If all the remaining outstanding exercisable options were exercised, the Company's available cash would increase by Cdn$559,100.

During the year ended December 31, 2013, 2,571,429 warrants granted on November 30, 2011 with an original expiry date of September 30, 2013 at exercise price of Cdn$8.00, were extended to expire September 30, 2015 at exercise price of Cdn$2.50, and 156,000 warrants with the original expiry date of October 25, 2013 at exercise price of Cdn$4.5 were extended to expire on October 25, 2015 at exercise price of Cdn$2.50. As at December 31, 2013, the Company had 2,727,429 warrants outstanding with exercise price of Cdn$2.50, expiring between September 30, 2015 and October 25, 2015. If all the remaining outstanding warrants were exercised, the Company's available cash would increase by Cdn$6,818,571.

As of the date of this MD&A, there were 6,067,667 common shares issued and outstanding and 8,983,095 common shares outstanding on a diluted basis.

(f) Commitment and Contingency

The Company is currently engaged in three litigations where plaintiffs are demanding for the payments of delinquent invoices, attorneys' fees and court costs if any. Amounts of delinquent invoices are included in accounts payable. The amounts of attorney fees and court costs are unknown.

(g) Off-Balance Sheet Arrangements

None.

(h) Transactions with Related Parties

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, 2013	Short-term employee benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director	$ 378,059	$ -	$ 378,059
Directors	23,036	-	23,036
Total	$ 401,095	$ -	$ 401,095

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

Due to related parties	Services for	2013	2012
Company controlled by officers	Rent, accounting and financial services	$ 51,629	$ 23,640
Company controlled by a director	Legal	18,179	2,860
Total		$ 69,808	$ 26,500

(i) Financial Instruments

The fair values of the Company's cash, accounts receivable (net of GST 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 liabilities of $101,000 (December 31, 2012 – net monetary assets of $160,000) denominated in Canadian dollars. A 6% change in the absolute rate of exchange in US dollars would affect its net loss by $6,060.

(b) Credit risk

The Company's cash is held in a Canadian financial institution and a US financial institution. The Company does not have any asset-backed commercial paper in its cash and cash equivalents. This risk is managed by using major banks that are high credit quality financial institutions as determined by 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.

(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 $300.

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, 2013	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 52,250	$ -	$ -	$ 52,250

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

(j) Management of Capital Risk

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

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

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

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

7. Policies and Controls

(a) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2013 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)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from International Accounting Standards ("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 FVTPL; 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.

The IASB has indefinitely postponed the mandatory adoption date of this standard.

***Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32)**

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"

- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Applicable to annual periods beginning on or after January 1, 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Amends IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to:

- provide "investment entities" (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*
- require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

Applicable to annual periods beginning on or after January 1, 2014.

Annual Improvements 2010-2012 Cycle

Makes amendments to the following standards:

- IFRS 2 — Amends the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition"
- IFRS 3 — Require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date
- IFRS 8 — Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly
- IFRS 13 — Clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only)
- IAS 16 and IAS 38 — Clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount
- IAS 24 — Clarify how payments to entities providing management services are to be disclosed

Applicable to annual periods beginning on or after July 1, 2014.

Annual Improvements 2011-2013 Cycle

Makes amendments to the following standards:

- IFRS 1 — Clarify which versions of IFRS can be used on initial adoption (amends basis for conclusions only)
- IFRS 3 — Clarify that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself
- IFRS 13 — Clarify the scope of the portfolio exception in paragraph 52
- IAS 40 — Clarifying the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Applicable to annual periods beginning on or after July 1, 2014.

(b) Significant Accounting 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:

Functional currency

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.

Carrying value of property and equipment and exploration and evaluation assets

The Company assesses at each reporting date whether there is an indication that an asset or cash-generating unit (the “CGU”) may be impaired. A CGU is defined as the lowest grouping of assets that generate identifiable cash inflows that are largely independent of cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretation with respect to the way in which management monitors operations. If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and CGUs have been determined based on the higher of value-in-use calculations and fair value less costs to sell. These calculations require the use of estimates and assumptions, such as estimates of proved

plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change.

A material adjustment to the carrying value of the Company's property and equipment and exploration and evaluation assets could arise as a result of changes to these estimates and assumptions.

Share-based payments

The Company measures the cost of its share-based payments to directors, officers, employees and certain consultants by reference to the fair value of the equity instruments using the Black-Scholes option pricing model at the date they are granted. The assumptions used in determining fair value include: expected lives of options, risk-free rates of return and stock price volatility. Changes to assumptions may have a material impact on the amounts presented. For more information on the Company's share-based payments see Note 6(d).

Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidation financial statements and their tax base using substantively enacted future income tax rates. Timing of future revenue streams and future capital spending changes can affect the timing of any temporary differences, and accordingly, affect the amount of the deferred tax asset or liability calculated at a point in time. These differences could materially impact earnings.

(c) Internal Controls Over Financial Reporting

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

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

Disclosure Controls and Procedures

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

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

8. Information on the Board of Directors and Management

Directors:
Mark T. Brown, B.Comm, C.A.
George Robinson, BSc
Desmond M. Balakrishnan, BA, C.LA, LLB
Arden McCracken - PhD

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

Management:
Mark T. Brown, CA – Chief Financial Officer and Corporate Secretary