BIG SKY PETROLEUM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

(Expressed in US Dollars)

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BIG SKY PETROLEUM CORPORATION

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SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF BIG SKY PETROLEUM CORPORATION

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, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) 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, 2014 and 2013, 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 29, 2015

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BIG SKY PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31
(Expressed in US dollars)

	Notes		2014		2013
Assets					
Oil and natural gas properties	4	$	250,000	$	1,806,888
Reclamation bond	4		25,000		25,000
Total non-current assets			275,000		1,831,888
Prepaid expenses			-		3,264
Accounts receivable			1,463		1,829
Cash			964		52,250
Total current assets			2,427		57,343
Total assets		$	277,427	$	1,889,231
Shareholders' Equity (Deficiency)					
Share capital	6	$	10,190,960	$	10,190,960
Reserves	6		1,303,020		1,289,314
Deficit			(12,242,378)		(10,559,232)
Total shareholders' equity (deficiency)			(748,398)		921,042
Liabilities					
Decommissioning liabilities	5		250,000		250,000
Total non-current liabilities			250,000		250,000
Due to related parties	7		126,136		69,808
Due to Joint Participation Agreement partners	4		312,764		312,764
Accounts payable and accrued liabilities			336,925		335,617
Total current liabilities			775,825		718,189
Total shareholders' equity (deficiency) and liabilities		$	277,427	$	1,889,231

These consolidated financial statements are authorized for issue by the Board of Directors on April 29, 2015.

They are signed on the Company’s behalf by:

/s/Desmond M. Balakrishnan	/s/Mark T. Brown
Director	Director

See notes to consolidated financial statements

BIG SKY PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR YEARS ENDED DECEMBER 31
(Expressed in US dollars)

	Notes	2014	2013
Exploration and evaluation expenses	4		
Lease operating		$ 8,736	$ 745,658
Completion costs		-	1,213,744
Drilling costs		-	907,844
Depreciation		-	68,198
Management field operations		-	23,036
Engineering & geological		-	18,966
Land management		-	3,563
		(8,736)	(2,981,009)
General and administrative expenses			
Accounting, audit and legal fees		78,096	177,220
Transfer agent, listing and filing fees		13,575	21,830
Office and administrative		10,848	174,817
Travel		5,637	110,425
Wages		5,000	264,169
Investor relations		1,541	67,368
Share-based payments	6(d)	860	14,039
		(115,557)	(829,868)
Loss on disposal of oil and natural gas properties		-	(118,558)
Other income		54	36,845
Interest income		29	3,268
Foreign exchange (loss)		(2,048)	(15,071)
Write-off of oil and natural gas properties	4	(1,556,888)	(335,680)
		(1,674,410)	(1,259,064)
Net loss		(1,683,146)	(4,240,073)
Exchange differences on translation of foreign operations		12,846	12,680
Total comprehensive loss for the year		$ (1,670,300)	$ (4,227,393)
Basic and diluted loss per share		$ (0.28)	$ (0.70)
Weighted average number of common shares outstanding		6,067,667	6,067,667

See notes to consolidated financial statements

BIG SKY PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in US dollars)

				Reserves				
	Note	Number of Shares	Share Capital	Equity-settled Employee Benefits	Finder's Warrants	Foreign Currency Translation	Deficit	Total Shareholders' Equity (Deficiency)
Balance as at December 31, 2012		6,067,667	$10,190,960	$ 383,448	$ 686,976	$ 192,171	$ (6,319,159)	$ 5,134,396
Share-based payments	6(d)	-	-	14,039	-	-	-	14,039
Net loss and comprehensive loss for the year		-	-	-	-	12,680	(4,240,073)	(4,227,393)
Balance as at December 31, 2013		6,067,667	10,190,960	397,487	686,976	204,851	(10,559,232)	921,042
Share-based payments	6(d)	-	-	860	-	-	-	860
Net loss and comprehensive loss for the year		-	-	-	-	12,846	(1,683,146)	(1,670,300)
Balance as at December 31, 2014		**6,067,667**	**$10,190,960**	**$ 398,347**	**$ 686,976**	**$ 217,697**	**$ (12,242,378)**	**$ (748,398)**

See notes to consolidated financial statements

BIG SKY PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31
(Expressed in US dollars)

	2014	2013
Cash provided by (used in)		
Operating activities		
Net loss	$ (1,683,146)	$ (4,240,073)
Items not affecting cash:		
Share-based payments	860	14,039
Depreciation	-	68,198
Write-off of oil and natural gas properties	1,556,888	335,680
Loss on sale of oil and natural gas properties	-	118,558
	(125,398)	(3,703,598)
Changes in non-cash working capital items:		
Prepaid expenses	3,120	8,037
Accounts receivable	219	46,542
Due to related parties	66,527	40,186
Accounts payable and accrued liabilities	(1,047)	299,612
Due to Joint Participation Agreement partners	-	312,764
Net cash used in operating activities	(56,579)	(2,996,457)
Investing activities		
Oil and natural gas properties	-	(928,932)
Proceeds from disposal of oil and natural gas properties	-	214,097
Net cash used in investing activities	-	(714,835)
Effects of exchange rate changes on cash held in foreign currencies	5,293	9,176
Change in cash	(51,286)	(3,702,116)
Cash, beginning of the year	52,250	3,754,366
Cash, end of the year	$ 964	$ 52,250
Supplemental cash flow information:		
Interest received	$ 29	$ 3,268

See notes to consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Big Sky Petroleum Corporation (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.

On November 30, 2011, the Company completed the acquisition of Big Sky Operating LLC ("Big Sky") by way of a reverse takeover acquisition, 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.

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 may 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 $1,683,146 for the year ended December 31, 2014 (2013 - $4,240,073) and had an accumulated deficit of $12,242,378 at December 31, 2014 (2013 - $10,559,232). The Company also had working capital deficiency of $773,398 as at December 31, 2014 (2013 - $660,846). 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 or dispose certain of its oil and gas properties.

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 statements 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 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. 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. These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are effective on December 31, 2014.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2014 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 (2014)

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however, there are differences in the requirements applying to the measurement of an entity's own credit risk.
- Impairment. The 2014 version of IFRS 9 introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Applicable to the Company's annual period beginning on January 1, 2018.

2. BASIS OF PREPARATION (Continued)

(b) Basis of preparation (Continued)

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:

- Apply all of the business combinations accounting principles in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11.
- Disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

Note: The amendments apply prospectively to acquisitions of interests in joint operations occurring from the beginning of the first period in which the amendments apply. Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted.

Applicable to the Company’s annual period beginning on January 1, 2017.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- Require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3)
- Require the partial recognition of gains and losses where the assets do not constitute a business, a gain or loss is recognized only to the extent of the unrelated investors’ interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

Applicable to the Company’s annual period beginning on January 1, 2017.

2. BASIS OF PREPARATION (Continued)

(c) Significant account judgments and estimates

The preparation of these consolidated financial statements requires management to make estimates and judgements 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 judgements 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 has determined that the functional currency for its 100% wholly-owned subsidiaries in US is the US dollar. The Company chooses to report in US dollars as the presentation currency.

Carrying value of oil and natural gas properties

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 judgements, 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 judgements.

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).

2. BASIS OF PREPARATION (Continued)

(c) Significant account judgments and estimates (Continued)

Deferred Income taxes

Related assets and liabilities are recognized for the estimated tax consequences between amounts included in the consolidated 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 net loss.

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 Big Sky Petroleum Corporation, 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

Intercompany 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 has determined that the functional currency for its 100% wholly-owned subsidiaries in US is the US dollar. 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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 CGU level. The Company evaluates the geography, geology, production profile and infrastructure of its assets in determining its CGUs. The Company reviews the composition of its CGUs 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 judgment 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 units of production. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(f) 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).

<u>Financial assets</u>

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)

(f) 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.

(g) Share-based payments

The share option plan allows the Company’s directors, management, employees, management company employees, agents 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)

(h) 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.

(i) 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.

(j) 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. OIL AND NATURAL GAS PROPERTIES

Montana Projects

The Company has interests in separate land packages known as the Americana Acreage Block and the FX Block, collectively referred to as the Glacier Prospects.

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) in the 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) in 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, 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 owned a one-third interest. As at December 31, 2014, the Company owes $312,764 (2013 - $312,764) to its Joint Participation Agreement partners for the sale. The Company does not plan to further explore the Montana projects and therefore, during the year ended December 31, 2014, the Company wrote-off $522,444 (2013 - $nil) of its capitalized cost related to the Montana projects. As a result of the impairment, the carrying value of the Montana projects as at December 31, 2014 is Nil (2013 - $522,444).

Texas Project

On November 28, 2012, the Company announced it entered the 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.

As of December 31, 2014, the Company had a reclamation bond of $25,000 (2013 - $25,000) and is expected to be released after all reclamation work has been completed with regard to the Texas project. During the year ended December 31, 2014, the Company wrote-off $1,034,444 (2013 - $335,680) of its capitalized cost related to the Texas project. The impairment was based on management's best estimate of fair value less costs to sell, being the equivalent of the estimated decommissioning provision the Company would recover on disposal of the Texas project. The impairment resulted in the Texas project being written down to a value, determined in accordance with level 3 of the fair value hierarchy, of $250,000 (2013 - $1,284,444).

The Company's decommissioning provision results from its ownership interest in oil and natural gas assets. The total decommissioning provision is estimated based on the Company's net ownership interest in a well, the estimated costs to reclaim and abandon the well and the estimated timing of the costs to be incurred in future years. The Company has estimated the decommissioning provision being the estimated costs of reclaiming the only well drilled of $250,000 as at December 31, 2014 (2013 - $250,000) (Note 5).

(Expressed in US dollars, unless otherwise indicated)

4. OIL AND NATURAL GAS PROPERTIES (Continued)

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 December 31 2012	Expenditures/ write-off	Depreciation	Disposal	Balance December 31 2013	Write-off	Balance December 31 2014
Montana							
Leasehold costs	$ 941,365	$ 18,673	$ -	$ (357,604)	$ 602,434	$ -	$ 602,434
Lease and well equipment	18,857	-	(8,724)	-	10,133	-	10,133
Office equipment	394	-	(394)	-	-	-	-
Write-off of oil and natural gas properties	(90,123)	-	-	-	(90,123)	(522,444)	(612,567)
	870,493	18,673	(9,118)	(357,604)	522,444	(522,444)	-
Texas							
Decommissioning provision	-	250,000	-	-	250,000	-	250,000
Leasehold costs	518,945	614,860	-	-	1,133,805	-	1,133,805
Lease and well equipment	-	295,399	(59,080)	-	236,319	-	236,319
Write-off of oil and natural gas properties	-	(335,680)	-	-	(335,680)	(1,034,444)	(1,370,124)
	518,945	824,579	(59,080)	-	1,284,444	(1,034,444)	250,000
TOTAL	**$ 1,389,438**	**$ 843,252**	**$ (68,198)**	**$(357,604)**	**$ 1,806,888**	**$(1,556,888)**	**$ 250,000**

5. DECOMISSIONING LIABILITIES

Balance, December 31, 2012	$ -
Additions	250,000
Balance, December 31, 2013	250,000
Additions	-
Balance, December 31, 2014	$ 250,000

The Company’s provision for decommissioning liabilities consists of remediation obligations resulting from its ownership interests in oil assets. The total obligation is estimated based on the Company’s net ownership interest in each well site, estimated costs to return these sites to their original condition and costs to plug the wells and the estimated timing of the costs to be incurred in future years.

No further exploration work was performed in 2014. The decommissioning liability relates to the estimated fair value of reclaiming the only well drilled in 2013 of $250,000 as at December 31, 2014 (2013 – $250,000).

(Expressed in US dollars, unless otherwise indicated)

6. SHARE CAPITAL AND RESERVES

(a) Authorized

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

(b) Share consolidation

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.

(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 2,776,567 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, 2014, nil (2013 – 832,970) common shares of the Company were held in escrow.

(d) Stock options

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

Expiry date	Exercise Price ($CDN)	December 31 2012	Granted	Exercised	Expired/ Cancelled	December 31 2013	Expired/ Cancelled	December 31 2014
May 21, 2013	$ 3.00	12,333	-	-	(12,333)	-	-	-
August 18, 2013	$ 3.00	5,000	-	-	(5,000)	-	-	-
March 15, 2014	$ 2.50	-	15,000	-	(15,000)	-	-	-
October 17, 2016	$ 1.20	-	25,000	-	-	25,000	-	25,000
December 1, 2016	$ 3.50	147,000	-	-	(2,000)	145,000	(55,000)	90,000
November 29, 2017	$ 1.20	8,000	-	-	-	8,000	-	8,000
January 7, 2018	$ 1.20	-	10,000	-	-	10,000	-	10,000
Options outstanding and exercisable		172,333	50,000	-	(34,333)	188,000	(55,000)	133,000
Weighted average exercise price ($CDN)		$ 3.34	-	-	-	$ 2.97	$ 3.50	$ 2.76

At December 31, 2014, the weighted average remaining contractual life of the stock options was 2.04 (2013 – 3.01) years.

(Expressed in US dollars, unless otherwise indicated)

6. SHARE CAPITAL AND RESERVES (Continued)

(d) Stock options (Continued)

The weighted average assumptions used to estimate the fair value of options for the years ended December 31, 2014 and 2013 were:

	2014	2013
Risk-free interest rate	1.36%	1.27%
Annualized volatility	142%	141%
Expected dividend yield	Nil	Nil
Expected option life in years	1.8 years	2.8 years

Based on these variables, share-based payments for the options vested during the year ended December 31, 2014 were $860 (2013 - $14,039).

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options. Volatility is estimated using the Company's historical stock prices.

(e) Warrants

Expiry date	Exercise price ($CDN)	December 31 2012	Issued	Expired	December 31 2013	Issued	Expired	December 31 2014
September 30, 2013	$ 8.00	28,571		(28,571)	-	-	-	-
September 30, 2015	$ 2.50	2,571,429	-	-	2,571,429	-	-	2,571,429
October 25, 2015	$ 2.50	156,000	-	-	156,000	-	-	156,000
Warrants outstanding		2,756,000	-	(28,571)	2,727,429	-	-	2,727,429
exercise price ($CDN)		$ 2.56	-	$ 8.00	$ 2.50	-	-	$ 2.50

At December 31, 2014, the weighted average remaining contractual life of the warrants is 0.75 (2013 - 1.75) years.

(Expressed in US dollars, unless otherwise indicated)

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, 2014	Short-term benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director	$ 54,342	$ -	$ 54,342
Directors	-	-	-
Total	$ 54,342	$ -	$ 54,342

For the year ended December 31, 2013	Short-term 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

Due to related parties	Services for	2014	2013
Company controlled by officers	Rent, accounting and financial services; shareholder loan	$ 103,082	$ 51,629
Company controlled by a director	Legal	23,054	18,179
Total		$ 126,136	$ 69,808

(Expressed in US dollars, unless otherwise indicated)

8. INCOME TAXES

(a) Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26% (US statutory rate of 35%) to income before income taxes. The reasons for the differences are as follows:

	2014	2013
Net Loss	$ (1,683,146)	$ (4,240,073)
Statutory income tax rate	26%	25.75%
Expected income tax recovery	(437,618)	(1,091,819)
Temporary differences	(53,862)	16,158
Permanent differences	224	3,615
Difference in foreign tax rates	(2,274)	(367,589)
Effect of change in tax rates	-	(39,746)
Unused tax losses and tax offsets not recognized	585,600	1,479,381
Under (over) provided in prior years	(92,070)	-
	$ -	$ -

(b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the Company will generates sufficient taxable income for the recognition of deferred tax assets.

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

	2014	2013
Non-capital losses	$ 7,853,389	$ 7,811,267
Resource properties	1,646,379	348,845
Property, plant and equipment	7,411	7,411
Share issue costs	104,150	226,465
	$ 9,611,329	$ 8,393,988

Non-capital losses, expiring as follows:

Available to	US	Canada	Total
2026	$ -	$ 19,000	$ 19,000
2027	-	34,000	34,000
2028	-	96,000	96,000
2029	-	97,000	97,000
2030	-	96,000	96,000
2031	913,000	746,000	1,659,000
2032	1,050,000	333,000	1,383,000
2033	3,893,000	352,000	4,245,000
2034	25,000	199,000	224,000
	$ 5,881,000	$ 1,972,000	$ 7,853,000

9. FINANCIAL INSTRUMENTS

The fair values of the Company's accounts receivable, accounts payable and accrued liabilities, and due to Joint Participation Agreement partners 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 $185,000 (2013 - net monetary assets of $101,000) denominated in Canadian dollars. A 6% change in the absolute rate of exchange in US dollars would affect its net loss by $11,100.

(b) Credit risk

The Company's cash is held in a Canadian 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 partners' receivables and Harmonized Sales Tax due from the federal government of Canada. The Company manages its joint interest partners' 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 twelve months of the year end date.

(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 $nil.

(Expressed in US dollars, unless otherwise indicated)

9. FINANCIAL INSTRUMENTS (Continued)

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, 2014	Level 1	Level 2	Level 3	Total
Cash	$ 964	$ -	$ -	$ 964

December 31, 2013	Level 1	Level 2	Level 3	Total
Cash	$ 52,250	$ -	$ -	$ 52,250

10. MANAGEMENT OF CAPITAL RISK

The Company's capital is comprised of amounts in shareholders' equity. 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 ended December 31, 2014, and the Company is not subject to any externally imposed capital requirements.

(Expressed in US dollars, unless otherwise indicated)

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.

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

	Canada	USA	Total
As at December 31, 2014			
Assets			
Oil and natural gas properties	$ -	$ 250,000	$ 250,000
Reclamation bond	-	25,000	25,000
Accounts receivable	1,463	-	1,463
Cash	964	-	964
	$ 2,427	$ 275,000	$ 277,427
As at December 31, 2013			
Assets			
Oil and natural gas properties	$ -	$ 1,806,888	$ 1,806,888
Reclamation bond	-	25,000	25,000
Prepaid expenses	1,819	1,445	3,264
Accounts receivable	1,829	-	1,829
Cash	27,717	24,533	52,250
	$ 31,365	$ 1,857,866	$ 1,889,231
For the year ended December 31, 2014			
Loss for the year	$ (100,992)	$ (1,582,154)	$ (1,683,146)
Capital expenditures	$ -	$ -	$ -
For the year ended December 31, 2013			
Loss for the year	$ (294,163)	$ (3,945,910)	$ (4,240,073)
Capital expenditures	$ -	$ (928,932)	$ (928,932)

12. CONTINGENCIES

The Company is currently engaged in three litigation claims 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.