FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **2008-04-04** | Period of Report: **2006-12-31**
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FILER

BIG SKY ENERGY CORP

CIK:**1075247**| IRS No.: **721381282** | State of Incorp.:**NV** | Fiscal Year End: **1231**
Type: **10KSB** | Act: **34** | File No.: **000-28345** | Film No.: **08741394**
SIC: **1311** Crude petroleum & natural gas

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from

_____

to

_____

Commission file number:
Big Sky Energy Corporation
(Exact name of small business issuer in its charter)

NEVADA	72-1381282
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Suite 6, 8 Shepherd Market, Mayfair, London, UK (Address of principal executive offices)	T2P 5E9 (Zip Code)

Issuer's telephone number: 1 (403) 234-8282

Securities Registered Under Section 12(b) of the Exchange Act: None

Securities Registered Under Section 12(g) of the Exchange Act: Common Stock, $0.001 par value (Title of class)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Corporation was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes | | No | X |

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Corporation's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. | |

Indicate by Check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes | | No | X |

Revenue for the most recent fiscal year: $8,547,584

Aggregate market value of voting and non-voting common stock held by non-affiliates of the Corporation using the average of the bid and asked price of the common stock, as of March 21, 2008: $6,494,234.

Number of shares outstanding of each of the Corporation's classes of common stock, as of March 21, 2008 equals 166,432,498 shares of common stock, par value US$0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE: None

Transitional Small Business Disclosure Format YES | | NO | X |

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Throughout this document, references herein to "the Corporation", "Big Sky", "we", "our" or "us" mean Big Sky Energy Corporation, a Nevada corporation, and its corporate subsidiaries and predecessors, unless the context requires otherwise. Certain terms used herein relating to the oil and natural gas industry are defined below in ITEM 1 "DESCRIPTION OF BUSINESS‑CERTAIN DEFINITIONS."

Certain Definitions

The definitions set forth below shall apply to the indicated terms as used in this Annual Report. All volumes of natural gas referred to herein are stated at the legal pressure base of the state or area where the reserves exist and at 60 degrees Fahrenheit and in most instances are rounded to the nearest major multiple.

After payout. With respect to an oil or natural gas interest in a property, refers to the time period after which the costs to drill and equip a well have been recovered.

API ‑ American Petroleum Institute

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to crude oil or other liquid hydrocarbons.

Bbls/d. Stock tank barrels per day.

Bcf. Billion cubic feet.

Bcfe. Billion cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Before payout. With respect to an oil and natural gas interest in a property, refers to the time period before which the costs to drill and equip a well have been recovered.

cm. Cubic meter or a liquid volume unit equivalent to 6.3 bbls. For gaseous substances, it is a volume unit equivalent to 35.28 cubic feet.

Completion. The installation of permanent equipment for the production of oil or natural gas or, in the case of a dry hole, the reporting of abandonment to the appropriate agency.

Developed acreage. The number of acres which are allocated or assignable to producing wells or wells capable of production.

Development well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dry hole or *well*. A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed the related oil and natural gas operating expenses and taxes.

Exploratory well. A well drilled to find and produce oil or natural gas reserves not classified as proved, to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir or to extend a known reservoir.

Farm-in or *farm-out.* An agreement whereunder the owner of a working interest in an oil and natural gas lease assigns the working interest or a portion thereof to another party who desires to drill on the leased acreage. Generally, the assignee is required to drill one or more wells in order to earn its interest in the acreage. The assignor usually retains a royalty and/or reversionary interest in the lease. The interest received by an assignee is a "farm-in" while the interest transferred by the assignor is a "farm-out."

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Finding costs. Costs associated with acquiring and developing proved oil and natural gas reserves which are capitalized by us pursuant to generally accepted accounting principles in the United States, including all costs involved in acquiring acreage, geological and geophysical work and the cost of drilling and completing wells, excluding those costs attributable to unproved property.

Full Field Development. The Full Field Development stage is the first stage in the Production Phase. Approval by the MEMR of a Full Field Development Plan is required prior to commencing the Production Phase. We have the right to accelerate the exploration activities and thus shorten the exploration phase. During the Full Field Development stage, and with the express consent of the Kazakhstan government, predicated on refinery capacity, we can sell up to 80% of our production on the international markets.

Gross acres or *gross wells.* The total acres or wells, as the case may be, in which a working interest is owned.

MBbls. One thousand barrels of crude oil or other liquid hydrocarbons.

Mcf. One thousand cubic feet.

Mcf/d. One thousand cubic feet per day.

Mcfe. One thousand cubic feet equivalent determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids, which approximates the relative energy content of crude oil, condensate and natural gas liquids as compared to natural gas. Prices have historically been higher or substantially higher for crude oil than natural gas on an energy equivalent basis although there have been periods in which they have been lower or substantially lower.

MMcf. One million cubic feet.

MMcf/d. One million cubic feet per day.

MMcfe. One million cubic feet equivalent determined using the ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids, which approximates the relative energy content of crude oil, condensate and natural gas liquids as compared to natural gas.

MMcfe/d. One million cubic feet equivalent per day.

Mcm. One thousand cubic meters.

Mcm/d. One thousand cubic meters per day.

Metric ton. A liquid volume unit equivalent to approximately 7.5 bbls.

Net acres or *net wells*. The sum of the fractional working interests owned in gross acres or gross wells.

NGL's. Natural gas liquids measured in barrels.

NRI or *Net Revenue Interests*. The share of production after satisfaction of all royalty, overriding royalty, oil payments and other nonoperating interests.

Normally pressured reservoirs. Reservoirs with a formation-fluid pressure equivalent to 0.465 PSI per foot of depth from the surface. For example, if the formation pressure is 4,650 PSI at 10,000 feet, then the pressure is considered to be normal.

Over-pressured reservoirs. Reservoirs subject to abnormally high pressure as a result of certain types of subsurface formations.

*Pilot Production Stage***.** The pilot production stage is a part of the exploration period which is designed to determine the most optimum and effective way of developing the field. The pilot production stage is an exemption provided by the MEMR from certain production quotas contained within the production sharing contracts when the Corporation is within the exploration period. The pilot production stage allows the Corporation to exceed the 90 day timeframe in which to test production from wells within a given field area. The purpose of this exemption is designed to determine the most optimum and effective way of developing the field. The length of the pilot stage is determined by consultation with the MEMR.

Post – salt prospect. Possible drillable hydrocarbon containing structures and/or traps that are located above the Kungurian salt domes or diapirs in the Precaspian basin of western Kazakhstan

Plant Products. Liquids generated by a plant facility and include propane, iso-butane, normal butane, pentane and ethane.

Pre-caspian basin. The large and prolific hydrocarbon producing sedimentary basin that is located on western Kazakhstan, containing such super giant oil fields as Tengiz, Kashagan and Karachaganak with a sedimentary thickness in excess of 20 km.

Pre-salt prospect: Exploration prospect related to possible hydrocarbons accumulated in reservoir rocks of pre-Kungurian age. In pre-salt prospects, potential reservoir rocks occur below thick rock salt deposits of Kungurian age (middle Permian).

Present value. When used with respect to oil and natural gas reserves, the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect as of the date indicated, without giving effect to nonproperty-related expenses such as general and administrative expenses, debt service and future income tax expense or to depletion, depreciation, and amortization, discounted using an annual discount rate of 10%.

Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceeds production expenses and taxes.

Proved developed nonproducing reserves. Proved developed reserves expected to be recovered from zones behind casing in existing wells.

Proved developed producing reserves. Proved developed reserves that are expected to be recovered from completion intervals currently open in existing wells and able to produce to market.

Proved developed reserves. Proved reserves that can be expected to be recovered from existing wells with existing equipment and operating methods.

Proved reserves. The estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Proved undeveloped location. A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

Proved undeveloped reserves. Proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion.

Recompletion. The completion for production of an existing well bore in another formation from that in which the well has been previously completed.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil and/or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

Royalty interest. An interest in an oil and natural gas property entitling the owner to a share of oil or natural gas production free of costs of production.

3-D seismic. Advanced technology method of detecting accumulations of hydrocarbons identified through a three-dimensional picture of the subsurface created by the collection and measurement of the intensity and timing of sound waves transmitted into the earth as they reflect back to the surface.

Salt dome: A mushroom-shaped or plug-shaped diaper made of salt, commonly having an overlying cap rock. A salt dome is formed when a thick bed of evaporite minerals (mainly salt, or halite) found at depth intrudes vertically into surrounding rock strata, forming a diaper.

Salt dome (specific to Kazakhstan). Flowing upward due to density difference of Kungurian (Lower Permian) aged salt deposits from their original flat lying position for several thousand meters high into dome, arch, mushroom or dike like configurations, causing updoming and structurations of overlying younger sediments.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas regardless of whether such acreage contains proved reserves.

Working interest or *WI.* The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production.

Workover. Operations on a producing well to restore or increase production.

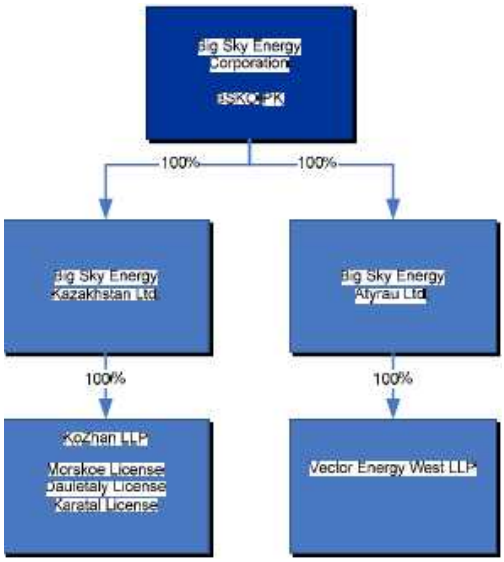
Overview

We were incorporated in February 1993 as Institute for Counselling, Inc. under the laws of the State of Nevada. On April 14, 2000, we acquired China Broadband (BVI) Corp., a British Virgin Islands company, incorporated in February 2000, by issuing 13,500,000 shares of our common stock in exchange for all of the issued and outstanding common stock of China Broadband (BVI) Corp. The former shareholders of China Broadband (BVI) Corp. became our controlling shareholders. On April 14, 2000, subsequent to the above acquisition, we changed our name to "China Broadband Corp." and merged China Broadband (BVI) Corp. into China Broadband Corp.

Late in October 2003, we began investing in oil and natural gas assets, an area in which our management has knowledge and experience and it was our belief that it was the right time to diversify into the oil and natural gas industry. We considered that this diversification would provide us with a revenue stream and financial stability which would sustain our operations so that we could concentrate on growing our business in the oil and natural gas sector. On December 29, 2003, we changed our name from China Broadband Corp. to China Energy Ventures Corp. On December 3, 2004, our shareholders approved a further name change to Big Sky Energy Corporation (the "**Corporation**").

Our principal business office in Kazakhstan is located at 7, Al-Farabi Avenue, Block 4A, office 27 Almaty, Republic of Kazakhstan Tel/fax.: +7 (727) 311 02 37/38. We maintain administrative offices in Calgary, Alberta, located at Suite 311, 840-6th Avenue SW, Calgary, Alberta, Canada T2P 5E9, Tel 1-403-234-8282. On March 1, 2006, our Board of Directors voted to move corporate headquarters to London, UK. (service address: Suite 6, 8 Shepherd Market, Mayfair, London UK W1J 7JY).

We maintain a website at www.bigskycanada.com. Information on our website is not part of this document.



Neither the Corporation, nor any of its subsidiaries, has been subject to any bankruptcy, receivership or similar proceedings.

Business of the Issuer

We operate as an oil and gas exploration and production company carrying out our activities through a number of operating subsidiaries and associated or affiliated companies. These operating companies are generally focused on one of our projects, and this structure assists in maintaining separate cost centers for these different projects.

We file reports with the US Securities and Exchange Commission (the "**Commission**"). The public may read and copy any materials that we file with the Commission at the Commission' s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. We make available free of charge our annual report on Form 10-KSB, quarterly reports on Form 10-QSB, current reports Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act on our internet website at www.bigskycanada.com as soon as reasonably practicable after we electronically file or furnish such material with or to the Commission.

Our principal activities are oil and gas exploration, development and production in the Republic of Kazakhstan ("**Kazakhstan**"). During 2006, we directed most of our efforts and resources to our development of the Morskoye Field. Our management and technical staff have substantial experience in our areas of operation. Currently our principal product is crude oil, and the sale of crude oil is our principal source of revenue.

As at March 21, 2008 and throughout the reporting period ending December 31, 2006, the Corporation operated three licenses located in the Atyrau Region of the Republic of Kazakhstan.

Two of these licenses (Daulately and Karatal) are still in their exploration phase, requiring intensive seismic investigation, data processing, interpretation and exploratory drilling during the course of the contract period. The Corporation expects that these exploration contracts will be finalized by 2008 or 2009, at which time the Corporation will negotiate further development contracts for these licenses. Licenses which are deemed non-productive during or after the

exploratory phase will be returned back to the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan ("**MEMR**"). No reserve data is available for these licenses as of the date of this filing.

The third licence, Morskoye, transitioned from Exploration Phase into the full field development stage of the Production Phase when its full field development plan was accepted by the MEMR Central Development Committee for Oil and Gas Fields on July 17, 2007. The Morskoye field has been operated continuously from July 17, 2007 to date under Full Field Development stage approvals. Reserve data for this licence is disclosed where appropriate throughout this filing. The Corporation commenced exporting production from this licence pursuant to an Export Licence granted January 12, 2007. (See "KoZhaN" below)

The Corporation is also actively looking to acquire additional acreage in both exploration and development phases to enhance our organic growth.

During 2006, the Corporation restructured its top management when, on December 31, 2006, its then President and CEO, Mr S.A. Sehsuvaroglu, stepped down. Dr. Servet Harunoglu, previously Chair of the Nominating and Compensation Committee and a director since May, 2005, was appointed to these roles. With the advent of oil sales at export pricing, limited additional financing was required in 2006 with none required in 2007.

Big Sky Energy Kazakhstan Ltd.

Big Sky Energy Kazakhstan Ltd. ("**BSEK**"), our wholly owned subsidiary, was incorporated on July 29, 2003 in Alberta, Canada and holds a 100% interest in KoZhaN LLP, which operates the three petroleum licenses in the Atyrau region of Kazakhstan (See disclosure "Item 4 – Legal Proceedings - **Claim by spouses of former partners in KoZhaN**").

KoZhaN LLP

KoZhaN LLP ("**KoZhaN**") was incorporated as a limited liability partnership on April 28, 2001, in the Republic of Kazakhstan by five Kazakhstani nationals unrelated to us. As a wholly owned subsidiary of BSEK, the President of KoZhaN is appointed by BSEK – Mr. S.A. Sehsuvaroglu (for 2005/2006), who was also the President and CEO of the Corporation. As of January 1, 2007, Dr. Servet Harunoglu became President of KoZhaN.

On February 17, 2003, KoZhaN entered into agreements with the Government of Kazakhstan for the exploration and development of three petroleum licenses in the Atyrau region of western Kazakhstan.

On February 7, 2006, KoZhaN signed an Agreement with ABT Ltd. a Kazakhstan company ("**ABT**"), pursuant to which ABT agreed to relinquish any and all claims in respect of a purported contractual right to a 45% interest in the Exploration and Production Contract for the

Morskoye Block. Under this Agreement, the Corporation agreed to pay ABT 1,520,218,282 Kazakhstan Tenge, which is approximately equivalent to $11,600,000, to be apportioned as follows:

- Sixty seven million twenty-eight thousand (67,028,000) Kazakhstan Tenge, which is approximately equivalent to $511,400, in repayment of a loan from ABT to KoZhaN for the drilling works provided by ABT on Well No. 10, Morskoye field;

- One hundred eighteen million, four hundred one thousand seven hundred thirty three (118,401,733.) Kazakhstan Tenge, which is approximately equivalent to $903,500, in payment for work done by ABT under a Construction Agreement; and
- One billion three hundred thirty four million seven hundred eighty eight thousand five hundred and forty nine (1,334,788,549) Kazakhstan Tenge, which is approximately equivalent to $10,185,100, in consideration for the cancellation of any and all perceived or actual rights of ABT under Agreement No.1 and the Agreement on Partial Transfer of the Subsoil Use Right. This amount is inclusive of all applicable taxes and other obligatory payments pursuant to the laws of Kazakhstan including VAT.

In addition to the cash payment set out above, the Corporation agreed to issue ABT 15,000,000 shares of the Corporation's common stock. The transaction was completed on March 10, 2006. As a result of this acquisition, KoZhaN obtained 100% interest in the Morskoye Field.

Big Sky Energy Atyrau Ltd.

Big Sky Energy Atyrau Ltd. ("**BSEA**") was incorporated on April 8, 2004, in Alberta, Canada.

Vector Energy West

Vector Energy West LLP ("**VEW**") was incorporated as a limited liability partnership in the Republic of Kazakhstan on July 4, 2001. As a wholly owned subsidiary of BSEA, the President of VEW is appointed by BSEA and Mr. Matthew J. Heysel has held the position of President of VEW from December 2004 to date.

On or about September 30, 2005, VEW' s former in-house lawyer/employee, Mr. Farkhad K. Shakirov, transferred and assigned VEW' s subsoil use rights arising in relation to the Atyrau Block to a newly formed shell company called Ligostrade Services LLP. The Corporation categorically states that Mr. Shakirov had neither the authority to affect such transfer nor was such transfer approved by the Corporation' s Board of Directors or any member of management.

During 2005 and ongoing into 2006, the Corporation defended itself against the illegal transfer of its assets held through its subsidiary, VEW, subsequent to the fraudulent activities of this former employee, without success.

As of the date of this fiing, VEW has no operations or active business although the corporate entity remains validly constituted.

Liman-2 Block

VEW received a letter dated April 11, 2006, from MEMR confirming termination of the Liman-2 subsoil use contract as of October 5, 2005 for alleged inadequate performance of the minimum work programme commitments.

The Corporation impaired the value of the VEW held oil and gas properties on its financial statements for the year ending December 31, 2005. This company is currently inactive.

Big Sky Energy Alakol Ltd.

Big Sky Energy Alakol Ltd. ("BSE Alakol"), a wholly owned subsidiary of the Corporation, was incorporated on March 17, 2005, in Alberta, Canada. This company is currently inactive.

Alakol Block

On July 12, 2005 and July 21, 2005, the BSE Alakol entered into a series of heads of agreements with Remas Corporation LLP ("Remas"), a Kazakhstan company, for the acquisition of a 50% interest in the Subsoil Use Contract No. 1766 dated June 15, 2005, in relation to the Alakol block (the "Contract"). The acquisition was subject to waiver of the Kazakhstan government' s preemptive right and approval of the MEMR. Under the Agreement on the Partial Sale of the Subsoil Use Rights, the purchase price of $430,000 was not due until after receipt of the government approvals for the proposed transfer. The agreements further provided that BSE Alakol was to pay $501,000 being the signature bonus required under the Contract.

As required by Kazakhstan law, Remas filed with MEMR its request for government' s approval of the proposed transfer. On January 20, 2006, Remas informed BSE Alakol, in writing, that the MEMR had decided not to grant its consent to the acquisition and consequently did not waive its right of first refusal under the Contract. However, Remas advised BSE Alakol of its intention to rectify the situation and continue negotiations with MEMR with respect to obtaining the required consent for the proposed transfer. Based on this representation, the Corporation granted Remas time to resolve this issue, however, as of April 18, 2006, the Corporation conceded that this transaction was not possible to complete. Remas has reimbursed the Corporation in respect of a loan made to it to pay the signature bonus and no further action or progress on this matter is anticipated.

Hydrocarbon Contracts

In Kazakhstan, producers have the right to negotiate sales contracts directly with purchasers, allowing the market to determine the price of oil. Under the terms of the three Contracts for Exploration and Production of Hydrocarbons ("**Hydrocarbon Contracts**") entered into by the MEMR and KoZhaN on the Morskoye, Karatal and Dauletaly Fields, all production has to be sold into the domestic market until we reach the Full Field Development stage. If the domestic market cannot absorb the produced hydrocarbons we can sell our product on the international market.

As at March 21, 2008, domestic prices are approximately $225 and export $585 per tonne (under the Hydrocarbon Contracts, our production is gauged and measured in tons, not barrels of oil per day) which equates to approximately $34 and $90 per barrel

Competition

The Government of Kazakhstan issues licenses on a regular basis through bidding rounds. Shares in existing licenses can be freely sold and purchased, subject to the terms of the individual Charter and Foundation Agreements in place. Late in 2004, the Government of Kazakhstan passed legislation providing certain pre-emptive rights whereby the government has the right to acquire interests in fields if there is an intention of the license holder to sell or farm out to a third party. However, there is little competition from foreign companies for the assets in Kazakhstan targeted by the Corporation. Major international companies target the large high-risk offshore blocks in the Caspian Sea.

While there are no restrictions in accessing the pipelines exporting crude from Kazakhstan, a transportation agreement has to be signed with KazTransOil, and export quotas have to be obtained from the MEMR.

Employees and Consultants

The number of employees has risen sharply according to the needs of the operations. We have added certain consultants both in-country and outside to assist in our corporate governance, oil transport and marketing and government compliance. We hired the services of foreign and local engineering and design companies to assist us with geological, geophysical and infrastructure projects. We expect these professional services to enhance our performance measurably within the upcoming year.

Set forth below is an indication of the Corporation' s 2006 operations and number of employees and consultants required by our subsidiaries and us to maintain operations.

Number of Employees/Consultants

	Managmnt	**Financial**	**Technical**	**Admin**	**Field Op' s**	**Total**
Almaty, Kz	4	6	6	13	-	29
Atyrau, Kz	2	1	7	4	20	34
Canada	0	0	0	2	-	2
Other	1	0	0	0	-	1
Total	**7**	**7**	**13**	**19**	**20**	**68**

Should the Corporation' s development necessitate, we will hire additional employees and consultants in sales, marketing, and administration over the current fiscal year and will hire additional management and employees on an as-needed basis. If the need arises for additional technical employees and we are unable to hire qualified employees in a timely manner, we may continue to outsource projects to third parties.

ITEM 2. DESCRIPTION OF PROPERTY.

OIL AND NATURAL GAS PROPERTIES

Morskoye License

List of wells on Morskoye contract license (including Ogai structure)

The following wells existed prior to acquisition of the field and are now on the Corporation' s inventory :

Morskoye 1, 6, 7, 8, 9, note all of these were plugged by USSR.

Ogai reservoir 1, 12, 28, 29, 30 .

Drilled by the Corporation : MOR #10, 11 and 12 (in 2005). Ogai-18 (plugged and abandoned in 2007 before reaching target depth).

The Morskoye License area is located approximately 30 km SW of the Tengiz complex, (but straddles the southern fringe of the Tengiz structure), in western Kazakhstan, about 90 kilometers southwest of Kulsary railway station. Neighboring producing oilfields include Tengiz 18 miles to the northeast and Prorva, 5 miles to the south. The field was identified by seismic investigation in 1963 and proven through drilling in 1965. It shows the anticlinal structures

draped over the bottom of the salt dome and delineated to the northwest by a fault. The oil-bearing horizons belong to the Lower Cretaceous Series at a depth of 4,000 feet.

The oil has been trapped in sandstones with a porosity exceeding 20%. Net pays of over 20 feet have been established. Three new wells were drilled, having tested oil at combined rates of over 5,000 bopd. The quality of the crude ranges from 35° to 20° API. The License has an area of 18,434 acres. We have the rights from the surface to the bottom of the salt (Kungurian). Although some oil production has been established, during the greater part of 2006, the license was considered an exploration block.

In 2005, the following works were done:

- Construction of the drilling pad and access road;
- Drilling and completion of three (3) development wells 10, 11, and 12 with total footage of 3900 meters approximately 1300 meters each. Wells 11 and 12 were cored and cores were analyzed in Corex (Aberdeen) and KazCoreResearch (Atyrau) labs.
- Construction of well testing, temporary oil storage and loading facilities during well testing period.
- Hooked up wells 10, 11 and 12 and started testing wells 10, 11, and 12 from December 13th , 2005.

In 2006, the following works were done:

- Shot 2D seismic in south-eastern part of contract license area (30.25 km)
- 26 old seismic lines (previously missing) were located and re-processed in SaratovNefteGeofizika
- Pad and access road construction for well MOR-1 and Ogai-1
- Re-entries of Ogai-1 and Morskoye (MOR)-1 wells. MOR-1 was tested for oil in the Cretaceous zone and then plugged and abandoned due to bad casing. Note that this zone is a different field than the existing MOR 10, 11, and 12 wells.
- Ogai-1 flowed 72 cub.m (500 BO)/day oil from 1176-1182m on 13 mm choke. This is a different and potentially much bigger reservoir than ones penetrated by Morskoye wells.
- Reservoir monitoring works during well testing period including pressure transient testing, PVT and surface oil and water sampling, etc.
- Pilot Production Project for Wells 10/11/12 was approved by MEMR in June 2006.
- Ogai-1 well was placed on test production on September 28, 2006 for 90 days.
- Construction of new worker camp.
- Minor upgrades of temporary production facility.
- Ogai-1 well pad was expanded to accommodate for drilling of another well (Ogai-18) from the same pad.
- Access road to Ogai-1 beefed up.

- Research/design works for planned large pad ("Super pad") from which future Ogai wells could be drilled.

In 2007, the following works were done:

- Re-interpretation of all available seismic data (including data from SaratovNefteGeofizika) for Morskoye block done by Geostan.
- Technical Scheme of (Full Field) Development Project was approved by MEMR on July 13, 2007. The total oil production permitted by Technical Scheme between period of 2007-2024 is 807.08 thousand tons. The project calls for drilling of three additional wells – two producers, and one injector well. Also, it calls for conversion of one of producer wells to water injection in later time during life of field.

- Ogai-18 well was drilled to depth of 1349 m at which the bottom-hole assembly got stuck in the hole. Fishing attempts were unsuccessful. It is decided to plug and abandon the well.
- In Ogai-18 well, around seven (7) meters of core was recovered from the same zone which was tested in Ogai-1 well (Aptian). Core analysis shows some reservoir quality and oil saturation proving continuity of oil deposit tested in Ogai-1.
- Field lab installed and started operating. Oil offloading facility constructed at Karaton

Dauletaly License

The Dauletaly License area is located near Emba in western Kazakhstan, about 60 miles northeast of Kulsary. Neighboring producing oilfields include Krykmyltyk 1 mile to the north and Zhubantam, 10 miles to the east. It shows several typical anticlinal structures draped over the top of salt domes and delineated by faults. The license is considered an exploration block, with substantial deep potential, based on regional maps. The License has an area of 33,359 acres. We have the rights from surface to the top of the salt.

List of wells on Dauletaly contract license

The following wells existed prior to acquisition of the field and are now on balance of the company: 1, 2, 3, 4, 12, 21 (Dauletaly), 1, 2, 13 (Dauletaly South). Note all of these were plugged by USSR.

Drilled by Company: DLT #33 and #34 (in 2006). Started drilling DLT-37 in 2006.

In 2005, the following works have been done;

- Shot 2-D seismic (105.8 km);

In 2006, the following works have been done;

- Finished interpretation of 2-D seismic shot in 2005;
- Dauletaly #33 well was drilled to 880 m TD on September 10, 2006. Several oil zones identified from well logs in Neocomian formations. Well testing produced water with negligible oil film. Well was temporarily abandoned.
- Dauletaly #34 well was drilled to 850 m TD. Several oil zones identified from well logs in Neocomian formations. Well testing produced water from one test interval and mainly oil from another set of intervals. Well was temporarily abandoned.
- Dauletaly #37 well was planned to be drilled to 2800 m. Due to unavailability of drilling rig of necessary size/capacity only first (surface) section was drilled to 352 m with smaller rig used to drill DLT-33 and DLT-34.
- Dauletaly South #2 well was re-entered and tested. On August 27, 2006, the well was plugged and abandoned due to excessive water.
- Dauletaly South #1 was re-entered and tested. No oil inflow produced at surface. Oil sample recovered from bottom-hole. The well was plugged and abandoned due to inpossibility to establish commercial oil inflow.
- Dauletaly #1 surface oil leak was repaired. The well was properly plugged and abandoned.

In 2007, following works have been done:

- Integrated interpretation of gravimetric data with seismic data was done by Geostar. The study helped to better refine a deeper prospect to be targeted by further exploration drilling

Karatal License

The Karatal License area is located near Makat in western Kazakhstan, about 50 miles north of Atyrau, western Kazakhstan' s major city. All large North American and European service companies are operating out of Atyrau. Neighboring producing oilfields include Draimola 10

miles to the northwest and Tanatar, 5 miles to the east. The field was identified by seismic investigation in 1958 and proven through drilling in 1959. It shows several anticlinal structures draped over the top of salt domes and delineated by faults. The oil-bearing horizons belong to the Lower Cretaceous Series at depths between 300 and 3,000 feet. The oil has been trapped in sandstones with a porosity exceeding 20%. Three wells have been re-completed having tested small amounts of oil and one new well was drilled but not yet completed, although some oil production has been established, the license is considered an exploration block. The License has an area of 103,982 acres. We have the rights from surface to the top of the salt.

List of wells on Karatal contract license

The following wells existed prior to acquisition of the field and are now on balance of the company: 1, 2, 4, 5, 6, 7, 8, 9, 10, 14, 15, 16, 17, 20. Note all of these were plugged by USSR. Drilled by Company: KRT #30, 32, and 34 (in 2006). #32 and 34 plugged and abandoned.

In 2005, the following works have been done:

- Shot 2D seismic;
- Re-entries of 3 wells (5, 6, and 9); based on re-entries results, KRT-6 was put on production testing starting November 14th , 2005; other two wells made water.
- Hook-up wells, construction of well storage and gauging facility
- Spudded Karatal (KRT)-30 well

In 2006, following works have been done:

- Finished interpretation of 2-D seismic shot in 2005;
- Finished drilling KRT-30 (TD-800m), KRT-34 (TD-1803m) and KRT-32 (TD-750m). KRT-34 and KRT-32 were plugged and abandoned due to geological reasons (absence of commercial oil-bearing reservoirs);
- After completion of KRT-30, well was put on production testing from Aptian reservoir starting May 4th , 2006;
- Reserves Calculation Project approved by MEMR;
- Pilot Production Project approved by MEMR in November 2006 for a two year period with a production allocation of KoZhaN LLP 14,81 thousand ton of estimated pilot production oil volume, 17,28 thousand ton of fluid (16,6 % of water cut of the product for 4 producing wells for the entire period of the 2 yeras pilot production.

In 2007, following works have been done:

- KRT-6 is currently producing under pilot production project.
- KRT 30 is shut-in due to high water cut.
-
-

MORSKOYE	2005		
Well #		Productive wells	Abandoned dry

	Currently producing (net)	Shut-in due high water content (net) Awaiting Workover	Abandoned in Soviet period, but expect to re-enter (gross)	(flowing water) wells
MOR-01			1	
MOR-04				1
MOR-06			1	
MOR-07			1	
MOR-08				1

MOR-09			1	
MOR-10	1			
MOR-11	1			
MOR-12	1			
OGAY-1			1	
OGAY-12				1
OGAY-28				1
OGAY-29				1
OGAY-30			1	
TOTAL	**3**	**0**	**6**	**5**

MORSKOYE 2006

Well #	Productive wells: Currently producing (net)	Shut-in due high water content (net) Awaiting Workover	Abandoned in Soviet period, but expect to re-enter (gross)	Abandoned dry (flowing water) wells
MOR-01	-	-	-	1
MOR-04	-	-	-	1
MOR-06	-	-	-	1
MOR-07	-	-	-	1
MOR-08	-	-	-	1
MOR-09	-	-	-	1
MOR-10	1	-	-	-
MOR-11		1	-	-
MOR-12	1	-	-	-
OGAY-1	-	-	1	-
OGAY-12	-	-	-	1
OGAY-28	-	-	-	1
OGAY-29	-	-	-	1
OGAY-30	-	-	-	1
TOTAL	**2**	**1**	**1**	**10**

DAULETALY 2005

Well #		Productive wells		Abandoned dry

	Currently producing (net)	Shut-in due high water content (net) Awaiting Workover	Abandoned in Soviet period, but expect to re-enter (gross)	(flowing water) wells
DLT-01			1	
DLT-02			1	
DLT-03				1
DLT-04				1
DLT-12				1
DLT-21			1	
DLTS-1			1	
DLTS-2			1	
DLTS-13				1
TOTAL	**0**		**5**	**4**

DAULETALY 2006

Well #	Productive wells			Abandoned dry (flowing water) wells
	Currently producing (net)	Shut-in due high water content (net) Awaiting Workover	Abandoned in Soviet period, but expect to re-enter (gross)	
DLT-1	-	-	-	1
DLT-2	-	-	-	1
DLT-3	-	-	-	1
DLT-4	-	-	-	1
DLT-12	-	-	-	1
DLT-21	-	-	-	1
DLT-33	-	1	-	-
DLT-34	-	1	-	-
DLTS -1	-	-	-	1
DLTS-2	-	-	-	1
DLTS-13	-	-	-	1
Total:	**-**	**2**	**-**	**9**

KARATAL 2005

	Productive wells				
Well #	Currently producing (net)	Shut-in due high water content (net) Awaiting Workover	Abandoned in Soviet period, but expect to re-enter (gross)	Drilling (gross)	Abandoned dry (flowing water) wells
KRT-01					1
KRT-02					1
KRT-04					1
KRT-05			1		
KRT-06	1				

KRT-07					1
KRT-08					1
KRT-09		1			
KRT-10					1
KRT-14					1
KRT-15					1
KRT-16					1
KRT-17					1
KRT-20					1
KRT-30				1	
TOTAL	**1**	**2**	**0**	**1**	**11**

KARATAL 2006

Productive wells

Shut-in

Well #	Currently producing (net)	due high water content (net) Awaiting Workover	Abandoned in Soviet period, but expect to re-enter (gross)	Drilling (gross)	Abandoned dry (flowing water) wells
KRT-01	-	-	-	-	1
KRT-02	-	-	-	-	1
KRT-04	-	-	-	-	1
KRT-05	-	1	-	-	-
KRT-06	1	-	-	-	-
KRT-07	-	-	-	-	1
KRT-08	-	-	-	-	1
KRT-09	-	1	-	-	-
KRT-10	-	-	-	-	1
KRT-14	-	-	-	-	1
KRT-15	-	-	-	-	1
KRT-16	-	-	-	-	1
KRT-17	-	-	-	-	1
KRT-20	-	-	-	-	1
KRT-30	1	-	-	1	-

December 31, 2006 **Identity of Field**

	TOTAL	**Morskoye**	**Karatal**
Revenues, net of royalties	$8,547,584	$8,380,084	$167,500
Production Costs	2,311,319	2,266,026	45,293
tonnage sold	77,361	75,761	1,600
# of Bbls sold	502,294	491,894	10,400
Average selling price ($/br)	17.02	17.04	16.11
Average production cost ($/br)	4.60	4.61	4.36

Productive wells and acreage

The table below provides information regarding the Corporation' s gross and net productive wells by field and the developed and undeveloped acreage by field:

2005

		Undeveloped acreage			
Leases	Developed acreage	Gross acreage	Net acreage	Remaining acreage	Total acreage
Morskoye	399	18,035	2,372	15,663	18,434.100
Dauletaly	-	33,359	3,111	30,248	33,359.200

Karatal	597.995	103,982	-	103,982	103,982.000

2006

Leases	Developed acreage	Undeveloped acreage			Total acreage
		Gross acreage	Net acreage	Remaining acreage	
Morskoye	399	18,035	2,372	15,663	18,434.100
Dauletaly	-	33,359	3,111	30,248	33,359.200
Karatal	597.995	103,982	-	103,982	103,982.000

Delivery Commitments

KoZhaN has entered into five offtake agreements to sell up to a total of 6,844 barrels of oil per day from its Morskoye field. These offtake agreements provide the general terms by which KoZhaN sells it oil and an estimate of the number of barrels of oil per day that the buyers anticipate they will purchase from KoZhaN. These agreements however do not contain any commitment by any of the buyers to buy any amount of oil. Prior to each month, each buyer will inform KoZhaN of the amount it is committed to purchase for just that month.

On January 2, 2007, the Corporation announced that its subsidiary, KoZhaN LLP, had received the Kazakh Ministry of Energy and Mineral Resource's approval to export and sell its crude oil at world prices starting in January 2007. Based on this approval, the Corporation has entered into a contract with Euro-Asian Oil AG to sell for export 60,000 tonnes (approximately 400,000 barrels or 1,100 bopd) in 2007. The Corporation will receive world oil price, which, adjusted for transportation and crude quality, has a price of approximately $51 per barrel as of March 2007. The Corporation has also pre-sold to Euro-Asian Oil $US2,500,000 of its production against delivery under this contract. In addition, the Corporation has entered into a contract with Sunoil

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LLP in March 2007 to sell additional production which must be allocated to the domestic market in 2007 at $190 per tonne ($27 per barrel). During 2006, its first year of production, the Corporation received approximately $20 per barrel for its domestic sales. The Corporation trucks and processes its production at third party facilities. Together these costs are approximately $4 per barrel and must be deducted from the above oil prices to yield a net wellhead price.

Current prices as at March 21, 2008, are approximately $225 domestic and export $585 per tonne (under the Hydrocarbon Contracts, our production is gauged and measured in tons, not barrels of oil per day) which equates to approximately $34 and $90 per barrel

ITEM 3. LEGAL PROCEEDINGS.

Claim by Spouses of former Partners in KoZhaN

In August, 2006 the Corporation was advised that spouses of four of the five former participants of KoZhaN (jointly referred to as "**Plaintiffs**") had filed Statements of Claims against BSEK, the Almaty Department of Justice, Notary Kanadanova, and four (4) of the five (5) former participants of KoZhaN (jointly referred to as the "**Defendants**") seeking to invalidate: (i) the 2003 SPA, and (ii) the re-registration of KoZhaN by BSEK.

The former participants of KoZhaN are:

Mukashev Bolat Raimkanovich, identification No. 000082879, issued by the Ministry of Internal Affairs of the Republic of Kazakhstan on 04.07.1996. , the Republic of Kazakhstan, the city of Almaty, residential area Orbita - 4, house No.2, apartment No.85. Mr Mukashev was a former employee of Big Sky Energy Kazakhstan, until 2006 when he was dismissed by the then incoming Chief Executive Officer;

Kachapov Garifolla Sapayevich, identification No. 007319660, issued by the Ministry of Internal Affairs of the Republic of Kazakhstan on 16.02.1998. , the Republic of Kazakhstan, the city of Almaty, Shevchenko Street, house No.157, apartment No.93; **Baikenov Kadyr Karkabatovich**, identification No. 000056324, issued by the Ministry of Internal Affairs of the Republic of Kazakhstan on 19.07.1995. , the Republic of Kazakhstan, the city of Almaty, Kabanbai Batyr Street, house No.55, apartment No.89; **Asanova Turgan Nurtaevna**, passport No. 1947791, issued by the Ministry of Internal Affairs of the Republic of Kazakhstan on 12.05.1997. , the Republic of Kazakhstan, the city of Astana, Auezov Street, house No.41, apartment No.18; **Faskhutdinov Ruslan Rakhimzhanovich**, identification No. 007030213, issued by the Ministry of Internal Affairs of the Republic of Kazakhstan on 25.08.1997. ,the Republic of Kazakhstan, the city of Almaty, Radostovtca Street, house No.43, apartment No.7. Mr Faskhutdinov is a relative by marriage of Mr Mukashev and a former employee of Big Sky Energy Kazakhstan who was also dismissed in early 2006.

The Plaintiffs alleged that they had not consented to the sale of the participatory interests under the 2003 SPA, and that their spousal consents were needed for a disposal of what they considered to be "marital property". On September 13, 2006, the trial court issued a Resolution bringing KoZhaN into the proceedings as a non-party intervener on the part of Defendants. We engaged local legal representation who together with the Corporation' s Kazakh counsel, McLeod Dixon, advised as a matter of Kazakhstan law, consent of a spouse to a transaction relating to a disposal of the marital property entered by the other spouse, is *presumed*. In addition, no formal spousal consent was required for the 2003 SPA because the transaction did not trigger mandatory notarization or registration with state authorities.

The first court hearing was held, as indicated above, on October 17, 2006. The Plaintiffs filed additional claims seeking to invalidate three powers of attorney of August 8, 2003 and August 9, 2003, under which three of the former participants of KoZhaN authorized Mr Bolat Mukashev, another former participant of KoZhaN, to execute the 2003 SPA on their behalf (the "**Powers of Attorney**"). In connection with the additional claims, the Plaintiffs requested the Court to bring into the proceedings, as a co-defendant, Ms. Batkalova who notarized the Powers of Attorney. Under the RK Civil Code a power of attorney is not a one-sided transaction, but a proxy. Hence, notarized consents of the Plaintiffs to the issuance of the Powers of Attorney of the three aforementioned former participants of KoZhaN were not required. On October 31, 2006, the Court held a meeting with attorneys for the Plaintiffs, BSEK and KoZhaN. According to our attorneys, the Court pointed out that while the Plaintiffs` claims appear to be baseless, it is obvious that the true intention of the Plaintiffs along with the co-defendants, was to challenge the commercial terms of the 2003 SPA due to the alleged non-performance by BSEK of its obligations thereunder. The Court suggested that the parties enter into a settlement agreement.

On November 3, 2006, the attorney for BSEK submitted to the Court, a letter stating that BSEK`s management had repeatedly applied to the Plaintiffs for co-operation with achieving a settlement. However, not only had they refused to co-operate, they had insisted on drafting and signing an additional agreement to the 2003 SPA to amend its commercial terms. On November 6, 2006 attorneys for BSEK and KoZhaN had preliminary discussions with the Plaintiff` s attorney and some of the participants on a possible settlement of the lawsuit. A settlement agreement with the Plaintiffs was not reached. On November 7, 2006, BSEK submitted a motion for postponement of the court hearing to permit more time for entering into settlement negotiations. With no settlement before it, the trial court issued its brief decision on November 22, 2006, under which the Plaintiffs` claims were fully dismissed and their claims to thirty-six percent (36%) the BSEK' s participatory interest in the charter capital of KoZhaN were invalidated accordingly.

On December 11, 2006, the Plaintiffs appealed the trial court decision of November 22, 2006 to the Civil Collegium of Almaty City Court (the "Appellate Court") requesting a cancellation of this decision and that the case be sent back for new trial on the basis that the trial court wrongly applied material law and did not investigate all circumstances having substantial impact on the outcome of the case. The Appellate Court hearing was held on February 6, 2007. BSEK`s advocate filed a motion for postponement of the Court hearing due to non-appearance of all other co-defendants and KoZhaN`s advocate. However, the motion was declined. The Plaintiffs` advocate confirmed Plaintiff` s appellate claims. In turn, BSEK`s advocate objected to every point of the appellate claims. The Appellate Court issued a Resolution dated February 6, 2007 ruling to cancel the trial court decision of November 22, 2006 and remand the case for a new trial to the trial court. As a matter of Kazakhstan procedural law, a Resolution of an appellate court comes into force immediately and can be appealed to the supervisory court within one (1) year from the date of such Resolution.

At this time, a decision was taken to retain the local Kazakhstani Law Firm of Grata to represent both BSEK and KoZhaN in these proceedings.

On February 19, 2007, BSEK and KoZhaN appealed the Appellate Court Resolution of February 6, 2007 and the preliminary hearing for the BSEK appeal was scheduled on March 7, 2007 and the KoZhaN appeal for March 15, 2007. At the preliminary hearings, both appeals were rejected for substantial considerations by the supervisory panel of the Almaty City Court.

Prior to a hearing originally scheduled for April 19, 2007 the defendants Messrs. Mukashev B.R., Faskhutdinov R.R., Kashapov G.S., Asanova T.N. and Baikenov K.K. filed with the court a letter of application requesting the court to try the court case in their absence and just to deliver them a decision. During the court hearing on April 19, 2007 BSEK and KoZhaN submitted their Objections to the Plaintiffs` Additional Claims re Protocol. The Plaintiffs` Advocate submitted the Statement of Claim from Mrs. Tulegenova (spouse of Mr. Baikenov, one of the sellers under the 2003 SPA and one of the former participants of KoZhaN) as a third party with independent claims, which was accepted by the judge. BSEK submitted a motion for postponement of this court hearing due to needing time to acquaint themselves with this Statement of Claim and to prepare responding Objections to it. The Plaintiffs` Advocate filed a letter of application asking the Court not to consider the Plaintiffs additional claims regarding invalidating the Powers of Attorney, (submitted by the Plaintiffs to the trial court in October 2006). BSEK also submitted a motion for postponement of this court hearing due to non-appearance of the Department of Justice, Mr. Mukashev B.R., Mr. Faskhutdinov R.R.; Mr. Kashapov G.S.; and Mrs. Asanova T.N. (the other defendants). The Court hearing was then postponed for April 25, 2006.

On April 26, 2007, the District Court reached a new and entirely different decision in favour of the spouses (the "**26 April Judgment**"). It ordered that the 2003 SPA, the Minutes of the Extraordinary General Meeting of KoZhaN dated 11 August 2003 and the re-registration of KoZhaN dated 24 September 2003 at the Department of Justice for the City of Almaty all be invalidated and annulled.

On July 6, 2007, the Appellate Court heard the various appeals then pending. The Plaintiffs' withdrew their Private Appeal on Resolution of the trial court dated May 16, 2007, by which the Plaintiffs' motion to seize BSEK' s and KoZhaN' s assets were declined. In respect to KoZhaN' s appeal of the 26 April Judgement, the Appellate Court declined the appeal and the decision of the trial court dated April 26, 2007 was upheld. BSEK immediately submitted to the General Prosecutor its motion with a request to suspend any execution of this adverse court decision.

On July 27, 2007, the General Prosecutor issued its Resolution, by which the execution of the court decision dated April 26, 2007 was suspended until a full review of all court case materials was conducted.

To further promote and enhance our actions in defending against these unsubstantiated attacks, the Corporation engaged the services of Prime Legal Services whose expertise lies in intergovernmental and legal dispute resolution and foreign company guidance within the cultural climate of the region.

On September 25, 2007, we, by our wholly owned subsidiary, BSEK, delivered a Notice of Intention to File a Request for Arbitration with the International Chamber of Commerce, International Court of Arbitration as provided for under the terms of the 2003 SPA.

We have retained the international firm of Herbert Smith LLP to represent us in the Arbitration proceeding.

On October 8, 2007, we received a letter dated October 5, 2007 from the Office of the Chief of the Department of the Almaty City Prosecution Office, Counsellor of Justice Zh. M. Atanov, wherein he advised that his office was issuing a supervisory protest dated October 5, 2007 with a request to reverse the previous court decision and to dismiss in full the Plaintiffs' claims, which was submitted to the Supervisory Board of the Almaty City Court.

On October 26, 2007, the Supervisory Board of the Almaty City Court heard arguments related to the supervisory protest raised by the Office of the Chief of the Department of the Almaty City Prosecution Office, Counsellor of Justice Zh. M. Atanov. The Supervisory Board sat for five (5) minutes prior to dismissing the General Prosecutor' s supervisory protest. On October 28, 2007, the General Prosecutor issued a new protest and stopped all actions on the case for a further three (3) month period.

On October 28, 2007, subsequent to a letter from Big Sky Energy Kazakhstan Ltd. being delivered to the Office of the President of the Republic of Kazakhstan, a resolution from the Office of the President was issued and delivered to the the General Prosecutor wherein he was instructed to "investigate this problem and protect the investors". The General Prosecutor then issued a new protest and stopped all actions on the case for a further 3 month period.

On October 30, 2007, the Supervisory Board of the Almaty City Court heard arguments related to the supervisory protest raised by the Office of the Chief of the Department of the Almaty City Prosecution Office, Counsellor of Justice Zh. M. Atanov. The Supervisory Board sat for five minutes prior to dismissing such supervisory protest.

On November 1, 2007, the General Prosecutor of the Republic of Kazakhstan issued a Decree on Suspension of Court Decision Execution and sent a copy of such Decree to Big Sky Energy Kazakhstan Ltd. on November 2, 2007. Such Decree, like the Supervisory Protest issued by the Almaty City Prosecutor' s Office on July 27, 2007, is a stay of execution of the prior trial court' s decision in this matter for a period of three (3) months.

On or about January 14, 2008, the Corporation received a Resolution of the Chief of the 1st Department of the General Prosecutor' s Office of Kazakhstan, senior advisor of justice Mr. Kravchenko A.N., wherein it was advised that the Prosecutors Office had determined there were elements of crime under item B part 3 of Article 177 of the RK Criminal Code in the indicated actions of the former participants of KoZhaN and their spouses in seeking to invalidate the 2003 Sale Purchase Agrement and that as per Articles 177, 186 and 189 of the RK Criminal Procedure Code, and Articles 20, 29 of the RK Law, the Prosecutor' s Office had decided to:

1. To open a criminal case of fraud under item B part 3 of Article 177 of the RK Criminal Code.

2. To send this criminal case to the Committee of National Security of Kazakhstan for conduct of preliminary investigation.

3. To notify all concerned parties about this decision.

On February 8, 2008, the Corporation received the written decision of the Supervisory Collegium of the Supreme Court subsequent to its hearing held on January 30, 2008. The hearing concerned the Protest of the General Prosecutor in respect of the claim filed by Faskhutdinova R.G., Faskhutdinov R.Y.A, Faizullayeva ZH., Seidagaliev SH., Tulegenova B., Mukashev, B.R., Kachapov T., Asanova T., Baikenov U., against Big Sky Energy Kazakhstan Ltd.; Department of Justice in the City of Almaty, Notary Kanadanova, to invalidate the agreement for purchase and sale of the interests in KoZhaN LLP, the Extraordinary Meeting of the LLP and other relief, under Article 398 of the Code of Civil Procedure.

This decision is particularly of concern to the Corporation in that it was taken by the court, notwithstanding the fact that Mr. Seidagaliyev and Mrs. Tulegenova jointly with their respective spouses renounced in full their claims. Mr. Seidagaliyev and Mrs. Tulegenova along with their spouses, Mrs. Asanova and Mr. Baikenov, respectively stated in the aforesaid joint statements that generally they were aware of the 2003 SPA and had no objections as to such transaction;

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therefore they issued powers of attorney in the name of Mr. Mukashev authorizing him to sign on their behalves the 2003 SPA.

The Corporation is intending to appeal this Resolution via the General Prosecutor to the Plenum of the RK Supreme Court.

On September 25, 2007, the Corporation, by its wholly owned subsidiary, Big Sky Energy Kazakhstan Ltd., commenced arbitration proceedings by filing a Request for Arbitration with the International Chamber of Commerce, International Court of Arbitration, as provided for under the terms of the 2003 SPA, against the following parties to the 2003 SPA:

Mukashev Bolat Raimkanovich,
Kachapov Garifolla Sapayevich,
Baikenov Kadyr Karkabatovich,
Asanova Turgan Nurtaevna,
Faskhutdinov Ruslan Rakhimzhanovich.

The Corporation has retained the international firm of Herbert Smith LLP to represent them in the Arbitration proceeding which are expected to take place prior to the end of the second quarter of 2008.

Proceedings Against MEMR

On January 30, 2006, VEW and BSEA commenced proceedings in the Astana Specialised Inter-District Economic Court against MEMR contending that its transfer of VEW' s subsoil rights to the Atyrau Block to Ligostrade was illegal. As a result, on March 13, 2006, the court issued a ruling that invalidated such transfer.

On March 15, 2006, this ruling was appealed by MEMR and Ligostrade, and on April 4, 2006 the Astana City Court issued a new decision cancelling the Specialised Inter-District Economic Court' s decision. While a further level of appeal to the Supervision Collegium of the Astana City Court was available to the Corporation, the Board of Directors, upon receipt of counsel from both legal and in-country advisors, took the considered decision that it was counter to the best interests of the Corporation to continue with this matter.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On March 1, 2006, the Corporation received an affirmative vote of the shareholders of record holding 68% of the issued and outstanding common shares of the Corporation to approve an increase of the authorized shares of the common stock from 150,000,000 to 350,000,000,

par value $0.001 per share. On March 7, 2006, the Nevada Secretary of State processed the Corporation' s Certificate of Amendment to adjust the Corporation' s share capital to 350,000,000.

On March 1, 2006, the Corporation received an affirmative vote of the shareholders of record as of January 13, 2006, holding 65% of the issued and outstanding shares of the Corporation to increase the available shares under the Corporation' s Stock Award Plan to no greater than 20% of the issued and outstanding shares of common stock of the Corporation at that date of grant.

PART II

ITEM 5. MARKET PRICE FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

During the first two quarters of 2006 our common stock, par value $0.001 per share, was traded and quoted on the National Association of Securities Dealers Over-the-Counter Bulletin Board ("NASD-OTC-BB"), under the symbol "BSKO". As of June 17, 2006, the Corporation' s shares were no longer eligible for quotation on the OTC/BB due to failure to file its regulatory reports. The Corporation' s common stock then commenced trading on the Pink Sheets, under the symbol, BSKO.PK for which limited historical share price information is available. The following information was obtained from http://finance.yahoo.com:

	High	Low
2006:		
First Quarter	$0.91	$0.58
Second Quarter	$0.65	$0.53
Third Quarter	$0.64	$0.45
Fourth Quarter	$0.79	$0.49
2005:		
First Quarter	$1.16	$0.47
Second Quarter	$1.37	$1.13
Third Quarter	$1.35	$1.25
Fourth Quarter	$1.56	$0.92

We have never paid dividends on our common shares. There are no restrictions that may limit our ability to pay dividends currently or in the future. We do not anticipate paying any dividends in the foreseeable future.

As of March 21, 2008 we had 141 shareholders of record and 166,432,498 shares of common stock, par value $0.001 per share, issued and outstanding.

EQUITY COMPENSATION PLAN INFORMATION

As of December 31, 2006:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (1)(2)
Big Sky Energy Corporation Stock Award Plan (2)	17,560,000	$0.77	15,480,885

(1) Excluding securities reflected under "Number of securities to be issued upon exercise of outstanding options, warrants and rights".

(2) Approved by our shareholders on December 3, 2004 to a maximum of 15,000,000 and further amended on March 1, 2006 to a maximum of no greater than 20% of the issued and outstanding shares as of the date of grant.

In July 2006, the board of directors approved the re-pricing of all outstanding options with an exercise price greater than $1.00 issued under the Corporation' s stock option plan to employees, consultants and others, but excluding directors, to $1.00 per share. All other terms remained unchanged.

RECENT SALES OF UNREGISTERED SECURITIES

Issuances Pursuant to Regulation S

In January 2006, the Corporation issued 635,000 shares of common stock for proceeds of $635,000 to the following investors, who had originally subscribed for Special Warrants in the August 2005 offering and which were cancelled prior to exercise:

Perfco Investments Ltd.

2035718 Ontario Inc.
Lawrence Venture Fund

On or about March 10, 2006, the Corporation issued 15,000,000 shares of common stock in connection with KoZhaN' s Agreement with ABT Ltd. a Kazakhstan company ("ABT"), pursuant to which ABT agreed to relinquish any and all claims in respect of a contractual right to a 45% interest in the Exploration and Production Contract for the Morskoye Block. Under this Agreement, the Corporation agreed to pay ABT 1,520,218,282 Kazakhstan Tenge, which is approximately equivalent to $11,600,000 USD. As a result of this acquisition, KoZhaN LLP owns 100% interest in the Morskoye Field.

In January and June 2006, the Corporation issued 26,555 shares of common stock to its Corporate Secretary, in exchange for services rendered valued at $50,314.

In May 2006 the Corporation issued 60,000 shares with a value of $89,340 to two individuals for investment banking and solicitation services.

From August through November 2006, the Corporation issued a total of Five Million Fifty Thousand (5,050,000) shares to satisfy certain registration rights penalties (see our financial statements foot note 16). This issuance was calculated at approximately 18.5% for all investors irrespective of the terms of the penalty provisions contained in their respective subscription agreements. In January 2007 the Corporation issued an additional 1,228,075 shares of its common stock in satisfaction of registration rights penalties noted above.

Each of the foregoing issuances of securities was exempt from registration due to the exemption found in Regulation S promulgated by the Securities and Exchange Commission under the Securities Act of 1933. These sales were offshore transactions since all of the offerees were not in the United States and the purchasers were outside the United States at the time of the purchase. All offering materials and documents used in connection with the offers and sales of the securities included statements to the effect that the securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States or to U.S. persons unless the securities are registered under the Act or an exemption therefrom is available and that hedging transactions involving those securities may not be conducted unless in compliance with

the Act. Each purchaser under Regulation S certified that it is not a U.S. person and is not acquiring the securities for the account or benefit of any U.S. person and agreed to resell such securities only in accordance with the provisions of Regulation S, pursuant to registration under the Act or pursuant to an available exemption from registration. The shares sold are restricted securities and the certificates representing these shares have been affixed with a standard restrictive legend, which states that the securities cannot be sold without registration under the Securities Act of 1933 or an exemption there from and we are required to refuse to register any transfer that does not comply with such requirements.

Issuances Pursuant to Regulation D

The following described issuances were conducted pursuant to Regulation D promulgated by the Commission under the Securities Act of 1933 (“Regulation D”);

In January 2006, the Corporation issued 215,000 shares of common stock for proceeds of $215,000 to Passport Master Fund LP which had originally subscribed for Subscription Receipts in the August 2005 offering and which expired.

Each of the foregoing issuances of securities were exempt from registration pursuant to Rule 506 of Regulation D. Neither we nor any person acting on our behalf offered or sold these securities by any form of general solicitation or general advertising. The shares sold are restricted securities and the certificates representing these shares have been affixed with a standard restrictive legend, which states that the securities cannot be sold without registration under the Securities Act of 1933 or an exemption therefrom. Each purchaser represented to us that he was purchasing the securities for his own account and not for the account of any other persons. Each purchaser was provided with written disclosure that the securities have not been registered under the Securities Act of 1933 and therefore cannot be sold without registration under the Securities Act of 1933 or an exemption therefrom.

REPURCHASE OF EQUITY SECURITIES

We have no plans, programs or arrangements in regards to repurchases of our common stock.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following summary financial data should be read in conjunction with the remainder of "Management's Discussion and Analysis or Plan of Operation" and the consolidated financial statements and notes to such consolidated financial statements included in this report. The summary historical financial data as at December 31, 2006 and 2005 and for the years ended December 31, 2006 and 2005 has been derived from our audited consolidated financial statements.

Since all of our oil and gas interests are currently held in the Republic of Kazakhstan, in which there is no private ownership of oil and gas properties, good title to our interests is dependent on the validity and enforceability of the governmental licenses and contractual arrangements that we enter into with government entities, either directly or indirectly. We believe that we have satisfactory title to such interests in accordance with standards generally accepted in the crude oil and natural gas industry in the areas in which we operate. Our interests in properties are subject to royalty interests, liens for current taxes and other burdens, none of which we believe materially interferes with the use of, or affects the value of, such interests. However, there is no assurance that our title to its interests will be enforceable in all circumstances due to the

uncertain nature and predictability of the legal systems in some of the countries in which we operate. Within the Republic of Kazakhstan, there is still a significant risk of overt actions by local Kazakh individuals and groups attempting to seize or otherwise convert foreign operated assets and licences for their own gain. While the Government of the Republic of Kazakhstan and its President have publicly condemned such practices and set up governmental bodies to combat fraudulent transfers and corporate raiding, this activity continues. Our wholly owned subsidiary, VEW, was subjected to a fraudulent transfer of its Atyrau licences by a former senior employee and despite our best efforts through the court system, this fraudulent transfer was upheld. In addition, after a series of disruptive and expensive "investigations" by the MEMR, occassioned by parties desiring to obtain the Liman-2 licence for themselves, the Corporation ceased to object to the revocation of this licence after satisfying itself that the retention and exploitation of this licence would not return the expenditure required to defend it.

Currently, our wholly owned subsidiary, KoZhaN, is defending its licences against an attempt to convert its licences (See "Item 4 – Legal Proceedings").

SUMMARY FINANCIAL DATA

Statement of Operations Data:

	YEAR ENDED DECEMBER 31, 2006	YEAR ENDED DECEMBER 31, 2005
Loss from continuing operations	($103,529,832)	($44,663,778)
Net loss	($103,529,832)	($44,663,778)
Basic loss per share	($0.66)	($0.43)
Basic weighted average	156,499,590	104,194,520

Balance Sheet Data:

	December 31, 2006	**December 31, 2005**

Cash and cash equivalents	$1,833,679	$12,042,965
Working capital (deficiency)	($10,234,675)	$2,883,528
Total assets	$14,768,227	$50,443,800
Total stockholders' equity	($13,865,919)	$21,839,927

Convertible Debenture

On June 30, 2006, the Corporation closed on an unsecured $15 million Convertible Note Purchase Agreement ("Convertible Note") due June 30, 2008. The Convertible Note bears interest at 6% per annum and has an initial conversion rate of $1.22 per share. The Corporation may prepay the note at any time after giving the Noteholders 30 days written notice after 1 year from issuance and the Corporation' s common stock has traded in excess of 125% of the conversion price for a period of 20 consecutive trading days.

Westwind Partners (UK) Limited acted as sole agent to the Corporation in connection with the private placement of the Convertible Notes. Neither the Note nor the shares of common stock that may be issued upon conversion of the Note have been registered under the United States Securities Act of 1933 (the "Act"), or the securities laws of any jurisdiction.

The Noteholders are restricted from converting the notes except in the event that the Corporation elects to redeem the note as described above, the Corporation notifies the Noteholders of a change of control event as defined in the Convertible Note

On the closing date of the Convertible Note, the Corporation' s common stock closed at $1.25 per share. In accordance with EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" the Corporation recorded a beneficial conversion discount in the amount of $368,853. The discount is being amortized to interest expense over the life of the Convertible Note at its effective interest rate of 7.06% .

The Corporation also granted registration rights to the Convertible Note Holders for the shares underlying the conversion feature and agreed to a penalty provision, in which if the Corporation failed to become current with its filings with the Securities and Exchange Commission, or failed to register the convertible shares in either the London AIM market or the Toronto Stock Exchange before March 31, 2007, the Convertible Noteholders would to receive a warrant to purchase 12,295,082 shares of the Corporation' s common stock, with a term of 2 years from issuance at an exercise price of $1.22 per share, subject to reset (see below). In accordance with the requirements of FSP EITF 00-19-2 the Corporation determined that it was likely as of December 31, 2006 that it would fail to meet the registration requirements of the Convertible Notes and has recorded a penalty payable in the amount of $768,499 based on a Black-Scholes valuation of $0.0625 per warrant share using a closing stock price of $0.36 per share, a 0% dividend yield, a risk free interest rate of 4.58%, a volatility of 84.5% and a term of 2 years.

On April 16, 2007, the Corporation issued a warrant for Twelve Million, Two Hundred and Ninety-Five Thousand, Nine Hundred and Eighty-Two (12,295,982) shares of common stock at an exercise price of $1.22 per share expiring as of April 16, 2009.

The conversion price of the Convertible Note is subject to adjustment in the event that the Corporation issues common stock or instruments convertible to common stock of the Corporation at a price below the conversion price of the Convertible Note. Exercise of instruments issued prior to the Convertible Note, options issued pursuant to both the 2000 Stock Award Plan and the Big Sky Stock Award Plan and any shares issued in a merger, acquisition or reorganization in which the Corporation is the surviving entity are excluded from the reset provision.

As of March, 2008, management had commenced discussions with the Noteholder with a view to reaching an agreement in respect to payment of this Note which falls due June, 2008.

RESULTS OF OPERATIONS

We are a junior oil and natural gas exploration company whose current operations are located primarily in the Republic of Kazakhstan, once part of the former Soviet Union. The focus of our operations are the acquisition, exploration, development, production and marketing of crude oil and, where volumes permit, natural gas. During 2006 and on to date of filing, we have concentrated on the development and production of the oil and gas properties belonging to our wholly owned subsidiaries, KoZhaN and VEW. We have incurred net losses since inception , and there can be no assurance that operating income and net earnings will be achieved in future periods.

Revenues

For 2006, the Corporation earned $8,547,584 (2005 $525,518) in revenues, net of royalties. This increase in revenues directly results from our continuing production from the Morskoye A pool plus limited production from the producing Karatal wells during the first half of 2006, before the Karatal wells were shut-in awaiting the decision by the MEMR to put those wells on a long-term pilot production program, which approval was granted in late November 2006. During 2006, our production was sold to the Kazakhstan domestic market as required under the Hydrocarbon contracts.

Expenses

General and Administrative

In 2006, the Corporation incurred general and administrative expenses of $37,009,504 – (2005, $17,252,551). The following table provides a breakdown of the general and administrative expenses by category.

	YEAR ENDED DECEMBER 31, 2006	YEAR ENDED DECEMBER 31, 2005
Office Costs(1)	$31,689,603	$12,748,376
Advertising Costs	1,768,350	2,102,641
Professional Services	3,450,942	2,357,366
Investor Relations	100,609	44,168
TOTAL	$37,009,504	$17,252,551

(1) $16,349,744 ($3,130,735 for 2005) of this figure represents stock based compensation. In 2006 we transitioned to the new fair value accounting required under FAS 123 (revised) "Stock Based Compensation". Under FAS 123 (revised) we use a Black Scholes model to estimate the grant date fair value of options issued to employees. Prior to 2005 we valued options under the exception to the old FAS 123, APB 25, which allowed us to value options based on their intrinsic value (closing market price less the exercise price of the option) on the date of grant. Under fair value, an option will have value even if the market price is less than the exercise price on the date of grant.

Office costs include the costs of executive management, administrative consultants, rent, insurance, travel and accomodation and general offices costs associated with both maintaining our business offices in Calgary, Canada and Kazakhstan (Almaty and Atyrau) and a corporate presence in London.

Our office costs increased by approximately $6 million in Kazakhstan in 2006 over 2005 in that we hired additional personnel and engaged additional consultants in conjunction with our increased exploration activities in 2006.

Advertising and promotion costs consist of print newspaper and magazine layouts featuring the benefits of doing business in Kazakhstan that we paid for as part of an early campaign to try to foster goodwill towards the Corporation within Kazakhstan. We ceased all advertising and promotion efforts after the first quarter of 2006 and do not expect to incur additional costs in the future.

Geological and Geophysical

Costs incurred to develop 2-D and 3-D seismic data and its interpretation and analysis of the acreage covering our production sharing contracts were $2,722,358 ($6,339,377 for 2005). The decrease in costs of $3,617,019 was primarily attributable to our conducting most of the 2-D and 3-D mapping in 2005 with more of an emphasis on interpretation in 2006.

Depreciation, Depletion and Amortization

Depreciation and amortization increased to $7,958,712 in 2006 ($117,473 in 2005). The increase was primarily the result of depletion of our proved reserves from oil production, which amounted to $7,716,822 ($15.40 per barrel) in 2006 versus $0 in 2005. As we did not have proved reserves in 2005, we did not record any depletion. Because of the impairment charges taken in 2006 the average depletion per barrel is expected to decline significantly in 2007.

Impairment

Total impairment cost in 2006 was $50,267,353 (2005 $9,537,245). The increase in impairment costs of $40,730,108 was primarily the result of an impairment of $46,285,000 in the first quarter of 2006 based on developing our estimate of the value of the proved reserves within the Morskoye field. Under successful efforts accounting, every reporting quarter, we compare the un-discounted cash flows expected

from production of oil and gas over the contract life in effect at that time versus the recorded value of oil and gas assets. If the value of the assets is in excess of the un-discounted cash flows, successful efforts requires that the value of the oil and gas assets be impaired to the value of the discounted cash flows of the producing reserves using the Corporations weighted average cost of capital. In 2005, the primary impairment occurred from the loss of our licenses on the Atyrau field, which resulted in our recording an impairment charge of $7,844,088, which impaired 100% of the oil and gas assets held by VEW. We recorded dry hole impairments of $3,982,353 in 2006 versus $1,693,157 in 2005.

Provision for Loss Contingency

An amount of $5,175,000 has been recorded as a contingency against the outcome of the current legal issues relating to the Corporation' s subsidiary, KoZhaN. The Corporation takes the view that all legal claims being made by the spouses of the former participants of KoZhaN, as disclosed herein (See "**Item 4 – Legal Proceedings - Claims by former participants in KoZhaN**") are off no merit and is seeking to continue to appeal the decisions of the local courts through the highest court in Kazakhstan as well as actively co-operating with the Kazakh judicial authorities in their ongoing criminal investigation. The Corporation is cognisant that the outcome of these legal issues is not wholly and solely predicated by the laws currently in force in the Republic of Kazakhstan and therefore this Loss Contingency is appropriate. If the Corporation does not successfully defend its interests, it could lose up to 90% of the ownership in its subsidiary, which holds 100% of its currently revenue producing oil and natural gas assets.

Foreign Exchange Loss

The financial statements of the Corporation' s two subsidiaries have been translated into US Dollars from Kazakhstan Tenge. The subsidiaries maintain their accounting records in Tenge. A majority of KoZhaN' s and VEW' s capitalized costs, expenses, liabilities, loans and cash flows are denominated in US Dollars. Accordingly, KoZhaN and VEW have determined that the US

Dollar is the functional currency. KoZhaN' s and VEW' s long-lived assets and equity are translated using historic exchange rates. Gains and losses arising from these translations are reported in the consolidated statement of operations as foreign exchange loss. The Corporation maintained offices and foreign denominated bank accounts (where possible) in Kazakhstan, Canada and China (closed early 2006) and incurred foreign exchange losses in meeting its operating expenses in local currencies relative to the US dollar. In 2006, foreign exchange losses were ($516,949) (2005 - $392,167) which resulted from changes in the exchange rates between US dollars and the currencies noted above. The Kazakhstan Tenge is not a fully convertible currency outside of the Republic of Kazakhstan. The translation of Tenge denominated assets and liabilities into US Dollars for the purpose of these financial statements does not indicate that the Corporation could realize or settle in US Dollars the reported values of the assets and liabilities.

Registration Rights Penalty

In November 2004 and February 2005, the Corporation conducted two separate private placements and sold 5,800,000 shares and 27,250,000 shares of its common stock, respectively. The investors participating in these private placements were granted penalty provisions within the terms of their Subscription Agreements, all of which penalties were to be triggered if the Corporation failed to file a Registration Statement within the period as set forth in such Subscription Agreements and registered such shares of common stock on behalf of the investors for resale.

Although the Corporation did file such registration statements within the time frame allowed, subsequently it was not able to bring such registration statements effective as of the required date. Therefore, the Corporation committed to issue penalty shares to such participants who remained beneficial holders of the common shares as per the terms of the various subscription agreements. This amounted to a total of 6,610,000 shares of common stock, valued at $1.73 per share, based on the closing market price for the Corporation' s stock on December 31, 2005, and represented an aggregate liability of $11,435,300 as of that date. In 2006 the Corporation revalued those liabilities after the annual general meeting of shareholders on March 1, 2006 at $1.95 per share which resulted in our recording additional costs in 2006 of $1,493,200 during 2006 due to the increase in the price of our common stock at the time when the penalty shares were issued.

In December 2005 the Company conducted an additional private placement in which penalty provisions much the same as the earlier private placements. At March 31, 2006 the Corporation determined it had failed those provisions and was required to issue an additional 1,161,575 shares at the closing market price of $2.00 per share. This resulted in the Corporation incurring additional penalty costs of $2,323,150 during 2006.

Included in the $15 million Convertible Note Agreement we signed in June 2006 was a provision that required us to register the underlying common stock of the Convertible Notes on or before March 31, 2007. We determined as of December 31, 2006 that we would fail to meet that requirement and were required under the terms of the note agreement to issue a warrant to acquire 12,295,892 shares of our common

stock at an exercise price of $1.22 per share as a penalty . We valued the warrant at $768,499 and included that cost in registration rights penalty expense during 2006.

Since we did not engage in any capital raising activities in 2007 we do not expect penalty costs to continue in 2007

Income Taxes

The tax environment in Kazakhstan is subject to change, inconsistent application, interpretation and enforcement. Non-compliance with Kazakhstan laws and regulations can lead to the imposition of penalties and interest. We intend to make every effort to conform to these laws and regulations. However, our interpretations and those of our advisors may not be the same as those of government officials, which could lead to penalties and interest.

In January 2008, the taxing authorities in Almaty, Kazakhstan completed a comprehensive review of our Kozhan subsidiary tax filings for 2005, 2006 and 2007 covering income taxes, value added taxes and property taxes filed for those years. The audit resulted in our recording additional income taxes of $808,450 for 2006. Allowable deductions for income tax purposes are governed by the provisions of the production sharing contracts. In these periods, the taxing authorities disputed a number of the deductions we had taken during those years, which when reversed, resulted in our having taxable income instead of losses in Kazakhstan. In 2007, upon entering the full field development plan, we are able to deduct more expenses against our oil revenues.

We were also assessed penalties of approximately $319,000 which have been included in general and administrative expenses. We are currently appealing those penalties.

Losses

The Corporation has incurred significant losses in prior years and in 2006 while developing the Oil and Natural Gas properties. In 2006, the Net Loss was $103,529,832 (2005 – ($44,663,778). This net loss reflects both the impairment and the penalty shares costs disclosed above.

During 2006, the Corporation had a net loss of approximately $103.5 million on revenues of approximately $8,5 million. As a result, the Corporation's accumulated deficit increased from approximately $74.8 million as at December 31, 2005, to approximately $178 million as at December 31, 2006. The Corporation's net loss of approximately $103.5 million includes an impairment writedown of its Kozhan oil and gas properties in the amount of $46.3 million as a result of impairment tests performed based on the results of reserve estimates in the first quarter 2006, additional impairments from unsuccessful exploration activities of approx $3.9 million, equity based compensation of approximately $16.3 million and costs in the amount of $4.6 million for the issuance of shares of common stock and warrants to subscribe to common stock as a penalty for the Corporation's inability to meet certain registration rights that it had granted to investors that participated in the Corporation's private placements conducted in September/October 2004, February/March 2005, August 2005 and December 2005 (see our financial statements foot note 16). During 2006, the Corporation utilized cash for operating activities of approximately $1.27 million per month, averaged over the fiscal year.

CAPITAL EXPENDITURES AND INVESTMENTS

Material Commitments for Capital Expenditures

As a result of the acquisition of KoZhaN we have acquired significant commitments for future capital expenditure. The majority or these commitments are not required to be settled until we have fully completed all the requirements for inclusion of an asset in the Production Phase, at which time we expect to have sufficient cash flows from production to meet these commitments and will rely primarily on production cash-flows to meet future capital expenditures. If the future

cash flows from production are insufficient to meet these commitments, we will likely have to rely on additional equity financing.

Certain commitments relating to KoZhaN require capital expenditure prior to the production phase. These include investment commitments of $16.4 million. We anticipate we will be able to meet these capital costs through a number of financing alternatives. The investment commitment of $16.4 million is required to be spent in the Republic of Kazakhstan during the exploration phase, which may last until approximately 2009. We plan to finance this commitment through a combination of the sale of exploration related production and future equity financing. The government' s objective in setting minimum work commitments is to ensure certain types of exploratory work is carried out by the license holder, including drilling new wells and seismic activity. The government will measure the degree to which the Corporation has met its commitments in terms of work completed. The government estimates the work commitment in terms of expected

spending amounts. The government measures the performance of the Corporation towards meeting its work commitment by evaluating the actual work performed in comparison with the agreed requirements. Actual spending is not a performance measure.

Commercial discovery bonuses will be equal to 0.1% of the value of proved reserves found, as defined by the MEMR which should not be associated with the Commission definition of "proved reserves". We accrued for approximately $473,000 for the commercial reserve discovery bonus for the Morskoye field in 2006. We anticipate that any commercial discovery bonus will be financed out of our current oil production.

For 2008, KoZhaN work commitments are defined as follows:

Morskoye:

Work Program for 2007 was accepted by Zapkaznedra on December 20, 2006 (Letter #91/2007). Total financial liabilities for 2007 amounted to $5,276,200, where Seismic work amounted to $455,100 (Including Seismic processing and Interpretation) and 2 wells drilling amounted to $3,400, 000.

2008 work commitments are determined under the Full Field Development Plan. The Corporation has budgeted approximately $16.3 million in 2008 for drilling and other operations.

Dauletaly:

Work Program for 2007 was accepted by Zapkaznedra at December 20, 2006 (#93/2007). Total financial liabilities for 2007 amounted to $3,605,400, where Seismic work amounted to $27,300 (Seismic/gravimetric data re-interpretation) and 3 wells drilling amounted to $2,775,000.

Work Program for 2008 were accepted by Zapkaznedra at December 11, 2007 (#92/2008). Total financial liabilities for 2008 amounted to $991,200, with no seismic and drilling planned.

Karatal:

Work Program for 2007 was accepted by Zapkaznedra at December 20, 2006 (#92/2007). Total financial liabilities for 2007 amounted to $1,931,300, where 2 wells drilling amounted to $1,200,000. No seismic work was planned at Karatal block in 2007.

Work Program for 2008 were accepted by Zapkaznedra at December 11, 2007 (#93/2008). Total financial liabilities for 2008 amounted to $1,476,300, with no seismic and drilling planned.

The KoZhaN work commitments are measured by actual work undertaken and completed. The cost to complete the work can be lower, or higher, than the estimated cost. Actual cost is not the determining factor in meeting work commitment obligations.

LIQUIDITY AND CAPITAL RESOURCES

During 2006, the Corporation utilized cash for management and corporate administrative activities of approximately $1.27 million per month.

In 2007 and through March 21, 2008, the Corporation has utilized approximately $1.1 million per month, which it has funded from revenues from current production. The Corporation anticipates that it will meet its ongoing overhead costs throughout 2008 from its revenues.

As of the date of this filing, current cash resources are not anticipated to be sufficient to fund the acquisition of producing properties or additional licenses or the repayment in June 2008 of the $15 million Convertible Notes. It will be necessary to consider seeking additional private equity or debt financing for these purposes. There can be no assurances that any such funds will be available, and if funds are raised, that they will be sufficient to achieve the Corporation' s objective, or result in commercial success. The Corporation cannot assure you that it will be able to obtain sufficient capital to satisfy all of its obligations or that its operating subsidiaries will be commercially successful.

As of December 31, 2006, the Corporation had outstanding current liabilities of approximately 13 million. During 2007 and into early 2008, management has and is addressing the satisfaction of these liabilities in several ways:

- engaging with tax and other authorities to negotiate and agree settlement figures and making good faith payments funded from production income;

- negotiating the inclusion of existing accounts payable into new contracts with suppliers, wherein such payment obligations will be rolled into the new contract payments and spread out over the term of the new contract and thus able to be paid off from production income
- ongoing negotiation with other suppliers in an attempt to reach settlement
- ongoing disputation of such accounts payable

In the future, should we be unsuccessful in defending our ownership interest in KoZhaN, we could lose up to 90% ownership in our sole subsidiary that has revenue producing operations. If this were to happen, we would have no cash to cover our operating expenses and would need to raise funds from additional debt and equity financing. However, should the loss of 90% of KoZhan have occurred, the terms under which we could expect to raise such funds would no doubt likely result in very substantial dilution to current shareholders. In the event we would be unable to raise additional funding, we would be forced to substantially reduce our expenditures and to curtail any operations and in the worst case, cease any such operations altogether.

The ability of the Corporation to continue operations will depend on its ability to finance, acquire, explore for and produce oil and natural gas on a profitable basis. We are, however, restricted in our ability to raise additional funding under our $15 million Convertible Note Agreement. That agreement does not allow us to incur secured indebtedness and restricts us from borrowing more than $10 million in unsecured financing unless we receive written

permission from the Note Holders. In addition, should we raise equity such that it causes a change of control event, as defined in the Convertible Note Agreement, we are required to immediately pre-pay the Convertible Note Agreement.

As of December 31, 2006, we had cash and cash equivalents of $1,833,679 that were included in the working capital deficiency of ($10,234,675) This compared to working capital of $2,883,528 at December 31, 2005.

During 2006, the Corporation used share issuances to pay for certain services, acquire certain interests and contribute to the Corporation’ s liquidity. Such issuances are listed below, along with the amount ascribed by the Corporation for each issuance.

Date	Number of Common Shares (Source)	Ascribed Value
01/06	26,555 shares of common stock to its Corporate Secretary, in exchange for services rendered	$50,340
01/06	635,000 shares of common stock to investors who had originally subscribed for special warrants in the August 2005 offering	$635,000
01/06	215,000 shares of common stock for proceeds of $215,000 to Passport Master Fund LP which had originally subscribed for Subscription Receipts in the August 2005 offering and which expired prior to completion	$215,000
3/06	15,000,000 shares of common stock in connection with KoZhaN’ s Agreement with ABT Ltd. a Kazakhstan company ("ABT"), pursuant to which ABT agreed to relinquish any and all claims in respect of a contractual right to a 45% interest in the Exploration and Production Contract for the Morskoye Block.	$34,050,000
3/06	200,000 common shares for stock option exercise	$100,000
5/06	60,000 common shares as compensation for services	$89,400
5/06	250,000 common shares upon exercise of options	$12,500
7/06	600,000 common shares upon exercise of options	$30,000

On a consolidated basis, our minimum cash requirement for maintenance of operations, without conducting a drilling program or acquisitions of other potential fields, is estimated at approximately $1.1 million per month in 2007. We anticipate that we will be required to raise additional capital to fund future exploration and development programs or farm out some of our interest in various higher risk/cost projects to third parties. Such farm-outs would be intended to cover up to 100% of project costs in return for a percentage interest in the project.

Cash Requirements

The following aggregated information about our undiscounted contractual obligations and other commitments aim to provide insight into our short and long-term liquidity and capital resource needs and demands as at December 31, 2006.

		Exploration Phase		
Time period	Total	Within 1 year	1 - 3 years	3 - 5 years
Estimated dates		2007	2008-010	2011-2013
Convertible Notes	16,350,000	900,000	15,450,000	

Operating leases for office space	$81,800	$39,600	$42,200	$Nil
Social sphere development liability (Astana and Atyrau)	625,000	398,000	227,000	Nil
Investment commitment (Including investment in local personnel)	31,126,543	9,799,600	20,465,388	1,165,555
Asset retirement obligations	740,000	Nil	740,000	
Total	$48,923,343	$11,137,200	$36,924,588	$1,165,555

* As disclosed in Note 25 to the consolidated financial statements, we are obliged to spend $14,000,000 during the exploration phase, which is expected to end in 2009. As we are entitled to make these payments at any point over the exploration period, the timing of payments presented in the table reflects management' s estimate as to when these expenditures will be incurred by us.

Pursuant to the three Hydrocarbon Contracts, a commitment was made by KoZhaN to invest, in Kazakhstan, an aggregate of $16.43 million in capital expenditures, investments or other items that may be treated as capital assets of KoZhaN on or before December 31, 2009. These expenditures will be used to further exploit and develop existing fields and to explore for additional reserves to enhance future production and revenues. If the required investment is not made within the agreed time period, KoZhaN may lose its exploration licenses. If the exploration effort is unsuccessful or future exploration is determined to be not profitable, KoZhaN can elect not to invest the balance of the required exploration investment.

Reserves

This report on Form 10-KSB contains estimates of our proved oil and gas reserves. These estimates are based upon various assumptions, including assumptions required by the Commission relating to oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir.

Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves will vary from those estimated. Any significant variance could materially affect the estimated quantities and the value of our reserves. Our properties may also be susceptible to hydrocarbon drainage from production by other operators on adjacent properties. In

addition, we may adjust estimates of proved reserves to reflect production history, results of exploitation and development, prevailing oil and gas prices and other factors, many of which are beyond our control.

Recovery of undeveloped reserves requires significant capital expenditures and successful drilling operations. The reserve data assumes that we will make significant capital expenditures to develop our reserves. Although we have prepared estimates of these oil and gas reserves and the costs associated with development of these reserves in accordance with Commission regulations, we cannot assure you that the estimated costs or estimated reserves are accurate, that development will occur as scheduled or that the actual results will be as estimated.

For 2006, our proved oil and gas reserves in the Republic of Kazakhstan were estimated by our external reservoir engineers, Sproule International Limited, of Calgary, Alberta, Canada ("Sproule"). No prior year reserve reports or estimations were commissioned.

Our internal geophysicists, geologist and reservoir engineers or those of the operator evaluate all technical data available on each field including production data, wells logs, pressure data, petrophysical analysis, fluid properties, seismic data, mapping based on seismic interpretations and well control along with offset well data to estimate the reserves in place in the reservoir and ultimately estimate the quantity of proved oil and gas reserves attributable to a specific property. We provide our analysis to Sproule for their estimates. Sproule then perform their own analysis of the same raw data including analysis of all production data, pressure data, well logs, petrophysical analysis, fluid analysis, seismic data and mapping based on that seismic data to determine their own reserves in place and ultimately estimate the quantity of proved oil and gas reserves attributable to a specific property. These estimates of proved reserves by Sproule are based upon the the Commission definitions of proved reserves and involves the estimation of the proved reserves based on extrapolations of well information such as flow performance and reservoir pressure as well as other technical information available to them.

As of December 31, 2006, we had proved remaining reserves of 1,299 thousand barrels ("Mbbls") of crude oil. During 2007, we engaged Sproule to provide an updated reserve estimate, which resulted in an upward revision of our remaining proved reserves to 2,024 Mbbl as of August 31, 2007. These upward revisions were the result of well performance better than originally expected and because of the approval of the full field development plan on July 13, 2007, by the Central Committee for Development of the MEMR. Proved developed reserves comprise 100 percent of total proved reserves. Our estimates of proved reserves, proved developed reserves and proved undeveloped reserves at December 31, 2006 and changes in proved reserves during that period and as of August 31, 2007 are contained in the Supplemental Information under Item 8 of this Form 10-KSB. Because of the time frames involved our 2006 financial statements were prepared using only the December 31, 2006 reserve report which estimates do not include the update information contained in the August 2007 reserve report mentioned above.

Undeveloped Acreage

The following table sets forth certain information regarding our developed and undeveloped acreage as of December 31, 2006 in the areas indicated.

	Developed		Undeveloped	
	Gross	Net	Gross	Net
Morskoye Licence area (acres)	241	241	18,193	18,193

The Morskoye license moved from its Exploration phase into the development stage of the

Production phase when its Full Field Development Plan was accepted by the MEMR Central Development Committee for Oil and Gas Fields on July 13, 2007. As of December 31, 2006, 543.6 Mbbl of oil had been produced from the Morskoye field. Reserve data for this license in disclosed where appropriate in this filing. The Corporation commenced exporting production from this license pursuant to an Export Licence granted January 12, 2007. The figures presented in this disclosure do not reflect export prices as we are constrained to only value the production as of the pricing obtained during the 2006 fiscal year.

Extensive national, regional and local environmental laws and regulations in Kazakhstan affect the operations of VEW and KoZhaN. These laws and regulations set various standards regulating certain aspects of health and environmental quality which provide for user fees, penalties and other liabilities for the violation of these standards and establish, in some circumstances, obligations to remediate current and former facilities and off-site locations. We believe we are currently in compliance with all existing Kazakhstan environmental laws and

regulations. However, as new environmental laws and legislation are enacted and the old laws are repealed, interpretation, application and enforcement of the laws may become inconsistent. Compliance in the future could require significant expenditures, which would directly impact our profit margins.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2006, we did not have any off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES

Accounting for Oil and Natural Gas Properties

The Corporation follows the successful efforts method of accounting for its oil and natural gas operations. Property acquisition costs are initially capitalized to property, plant and equipment as unproved property costs. Once proved reserves are discovered, the acquisition costs are reclassified to proved property acquisition costs. Exploration drilling costs are capitalized pending evaluation as to whether sufficient quantities of reserves have been found to justify commercial production. If commercial quantities of reserves are not found, exploration drilling costs are expensed. All exploratory wells that discover potentially commercial quantities of reserves in areas requiring major capital expenditures before the commencement of production and where commercial viability requires the drilling of additional exploratory wells remain capitalized as long as the drilling of additional exploratory wells is under way or firmly planned. All other exploration costs, including geological and geophysical and annual lease rentals are expensed to earnings as incurred. All development costs are capitalized as proved property costs. The costs of unsuccessful exploratory wells are charged to expense at the time the wells or other exploration activities are determined to be non-productive. Production costs, overheads and all exploration costs other than exploratory drilling are expensed as incurred.

Impairment of Oil and Natural Gas Properties

The Corporation evaluates its long-lived assets, including oil and natural gas properties, for possible impairment by comparing the carrying values with the undiscounted future net after-tax cash flows. Among other things, this might be caused by falling oil and natural gas prices, a significant revision to reserve estimates, adverse changes in operating costs, tax or political environment. Asset impairment may occur if a field discovers lower than anticipated reserves, write downs of proved reserves based on field performance, significant changes in commodity prices, significant decreases in the market value of an asset, and significant change in the extent

or manner of use or physical change in an asset. Impaired assets will be written down to their estimated fair values, generally their discounted future net after-tax cash flows. For proved oil and natural gas properties, the Corporation performs the impairment test on an individual field basis. Unproved properties are reviewed periodically to determine if there has been impairment of the carrying value with any such impairment charged to expense in the current period.

As of December 31, 2006 – the impairment of Oil and Natural Gas Properties amounted to $50,267,353.

Revenue Recognition

Oil and gas revenues are recognized when the products are delivered to the purchaser' s facilities and collectability is reasonably assured

ITEM 7. FINANCIAL STATEMENTS.

The information required by this item is included in pages F-1 through F-42 attached hereto. The index to the consolidated financial statements can be found on page 43.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

During the fiscal year ended December 31, 2006, and during the subsequent interim periods there were no reportable events as such term is defined by paragraph (a)(1)(iv) of Item 304 of Regulation S-B promulgated by the Securities and Exchange Commission ("Regulation S-B") that have not been reported as required under the applicable regulations.

ITEM 8A. CONTROLS AND PROCEDURES.

An evaluation of the effectiveness of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) was carried out by us under the supervision and with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). During the fiscal period ending December 31, 2006, our Chief Financial Officer was Mr Bruce H. Gaston. Mr Gaston ceased to be Chief Financial Officer in the first quarter of 2007, and the Corporation has failed to appoint and retain a replacement, as of the date of this filing. The Executive Chairman of the Board of Directors, Mr Matthew J Heysel, P.Eng, has assumed the responsibilities of Principal Accounting Officer supported by inhouse and external professional accountancy consultants.

Based upon that evaluation, our CEO and Principal Accounting Officer concluded that our disclosure controls and procedures are not effective to ensure that (i) information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission rules and forms and (ii) that such information is accumulated and communicated to our management, including our CEO and Principal Accounting Officer in order to allow timely decisions regarding required disclosure. As part of this evaluation, our CEO and Principal Accounting Officer considered letters dated from L J Soldinger Associates LLC, our independent registered accountants, addressed to our Board of Directors and Audit Committee that identified a number of significant deficiencies that they consider to be material weaknesses under the standards of the Public Company Accounting Oversight Board (“PCAOB”).

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those reponsible for oversight of the Corporation's financial reporting.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Corporation's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses in our internal control over financial reporting were discovered during the audit of our financial statements for the year ended December 31, 2006.

(a) inability to timely and accurately close books and records at the end of each reporting period;

(b) insufficient number of accounting and financial personnel;

(c) lack of personnel with expertise in US generally accepted accounting principles and US Securities and Exchange Commission rules and regulations;

(d) deficiencies in the recording and classification of proved and unproved oil properties;

(e) failure to obtain or maintain contemporaneous adequate records to substantiate the business purpose, persons entertained, nature of expense or date the expense was incurred for travel and entertainment expenditures in an aggregate amount for 2006 in excess of $1 million;

(f) failure to obtain or maintain procedures or records to identify personal expenses reimbursed by the Corporation and obtain refunds of same;

(g) failure to timely document and properly record transactions after signing contracts or upon their amendment;

(h) inadequate accounting software;

(i) lack of segregation of duties;

(j) insufficient oversight of internal controls by the Board of Directors and Audit Committee; and

(k) weakness in and lack of formal processes and tools used to consolidate the financial statements of the Corporation and our subsidiaries.

Upon entering the oil and gas exploration and development industry, we had a very limited management team that was primarily focused on acquiring interests in oil and gas prospects. Many of the deficiencies in our internal controls identified above are likely the result

of a combination of our limited management team and staff, high employee turnover and the diversion of resources to fight the fraudulent transfer of one of our main oil and gas assets.

Changes in internal control

There has been no change in our internal control over financial reporting identified in connection with that evaluation that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

We employ our executive officers as consultants under the terms of individual consulting agreements. (**See "Employment Contracts and Termination and Employment and Change in Control Arrangements")**

The following table sets forth information, as of March 21, 2008, regarding our directors, executive officers and key employees:

Name	Age	Position	Since
Daniel Caleb Feldman	37	Director	March 1, 2006
Servet Harunoglu	62	Chief Executive Officer & Director	May 10, 2005
Matthew J. Heysel	51	Executive Chairman of the Board & Director	April 14, 2000
Philip D. Pardo	51	Director	December 3, 2004
Barry Swersky	68	Co-Chairman, VP Legal & Director	December 3, 2004

Daniel Caleb Feldman- Director as of March 1, 2006

Mr. Feldman is a practicing attorney who was educated in the United States. He obtained a B.A. in Soviet Studies in 1992 from Trinity College, Hartford, CT, followed by a J.D. from Boston University School of Law between August, 1992 and June, 1995 completing his education with the attainment of a L.L.M. degree in Securities and Financial Regulation from Georgetown University Law School in June, 1997. Mr. Feldman has held positions with the US Securities and Exchange Commission as a Senior Attorney in the Enforcement Division from 1997 to 2000 and as an attorney in the Corporate Department with the firm of Goodwin Procter from July, 2000 to September, 2001. In April 2002 he joined Ernst & Young as an attorney until January, 2003 when he joined Yukos Oil Company as the Corporate Secretary in March, 2003 where he remains to date. Mr. Feldman was elected to the Board of Directors at the Annual Meeting of Shareholders held on March 1, 2006. Mr Feldman assumed the Chair of the Nominating and Compensation Committee as at December 9, 2006 and serves on the Audit Committee.

Dr. Servet Harunoglu – Director and Chief Executive Officer

Dr. Servet Harunoglu was appointed to the Board on May 10, 2005. Dr. Harunoglu holds a Ph.D in Electrical Engineering from Northwestern University, Chicago, IL (1973) and is a past Chairman of the Turkish Kazakh Businessmen' s Association, having held the chair for 7 years. From January, 1991 to the present, Dr. Harunoglu held many posts, including but not limited to, Board membership of Fintraco Construction and Contracting Co. Inc., Tarkim Tarimsal Kimya A.S. (October, 2003 to present)., Pimsa Poliuretan Manufacturing Co. Inc. (July, 1975 to present) and Donau Express Shiffarts GmBH. In addition, from June, 1998 to May, 2005, Dr. Harunoglu was Chairman of Matin JV, based in Atyrau, Kazakhstan as well as Chairman of Polfin Consortium S.A. Dr. Harunoglu has also been a member of the World Economic Forum and a member of the International Advisory Council of the Executives Club of Chicago. From May, 2005 until December, 2006, Dr Harunoglu served as Chair of the Nominating and Compensation Committee and sat as an independent director on the Audit Committee. On

December 8, 2006, the Board voted to appoint Dr Harunoglu as Chief Executive Officer and President of the Corporation, which duties he immediately commenced as a caretaker upon the immediate resignation of the incumbent, and formally as of January 1, 2007.

Matthew Heysel – Director and Executive Chairman of the Board

Mr. Heysel has served as Executive Chairman of the Board of Directors since April 14, 2005. He also served as Chief Executive Officer of the Corporation from April 14, 2000 to May 10, 2005. Mr. Heysel has been the Chairman of Big Sky Energy Kazakhstan Ltd. since July 2003, becoming President in December, 2004 and Vice-Chairman of KoZhaN LLP since August 2003, and President in December, 2004. Previously, he served as an Investment Banker at Yorkton Securities, a Canadian independent securities firm, where he was responsible for corporate finance in the oil and natural gas sector from April 1997 through April 1999. From April 1999 to November 2001, he was the President of New Energy West Corporation. From 1987 to 1997, Mr. Heysel was with Sproule Associates Limited, an independent oil and natural gas reserves engineering and geological consultant. During his tenure with Sproule, Mr. Heysel held the positions of Petroleum Engineer and Associate, Engineering Manager, Manager – International Projects and Senior Associate. Mr. Heysel obtained an Honors Bachelor Degree in Science from the University of Western Ontario in 1979 and a Bachelor of Science-Chemical Engineering Degree from the University of Toronto in 1982.

Philip Dean Pardo – Director

Professor Pardo is currently working and teaching in China in the areas of Accounting and Valuation. During his time in Central Asia (more than ten years), he was Vice Rector for Academic Affairs and Director of the Business School of Kazakh British Technical University (KBTU) and he held the post of Associate Dean of the College of Continuing Education for the Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP) where he lectured in Small Business, Accounting, Franchising, Public Administration and Finance. He has participated in numerous private consulting assignments in the areas of Strategic and Business Planning, Bank Financing, Valuation and is very active as a negotiator in the medium sized M&A field. As Director, Business Valuation for the Rice Group, Central Asia LLP, Professor Pardo supervised assignments, which assess the value interest in ownership of a commercial, industrial or service organization involved in economic activity. The valuations he performed were used for buying or selling businesses, buying insurance, resolving litigation issues, tax planning, allocating purchase prices among tangible and intangible assets. Professor Pardo has an MBA in finance and has worked for Deloitte & Touche as Tax Director as well as LeBoeuf, Lamb, Greene & MacRae. Before coming to Central Asia he worked for the U.S. Department of Defense. He has had assignments in Canada, Belgium, Uzbekistan, Azerbaijan, Kazakhstan and the United States and is currently serving as Past President of The Rotary Club of Almaty. Professor Pardo serves as an independent director and is Chairman of the Audit Committee and Chairman of the Nominating & Compensation Committee.

Barry Raymond Swersky – Director, Co-Chairman & Vice-President, Legal

Mr. Swersky is an experienced international attorney and consultant. Mr. Swersky has extensive experience in organizing major cultural activities in several countries including the United States, Russia, Israel and Europe. Since 2000 he has consulted on technology investments in Israel together with the Meitav Group. Meitav is one of Israel's leading fund managers. Since December 2000, he has been on the board and is currently Chairman of Netline Communications Technologies (NCT) a world leader in cellular telephone jamming. In Israel he is also serving on various other boards including Suntree Ltd. (since 1993) where he acts as Chairman and CEO and MACS Ltd. (since 1990). He served on the board of Ongas Limited in England from January 2000 to March 2004. Previously, and within the framework of his activities in energy in

Kazakhstan, Mr. Swersky served on the board of AES Suntree Power Limited. He has been engaged in the Oil and Oil Products Transport Logistics Project between Kazakhstan and China which is currently on hold although the two governments have now launched a Rail Project. Mr. Swersky's educational background includes Bachelor of Arts and Bachelor of Laws degrees from The University of Witwatersrand in South Africa. He was admitted as an Attorney in South Africa in March 1963 and as an Advocate to the Israel Bar in 1967. He is on the board of the Israel Festival, Jerusalem and, from October 2000 he served as a Board Member of Tel-Aviv University's prestigious Jaffee Center for Strategic Studies. In the past he acted as Country Advisor to Snam S.p.A. (part of the Italian Eni / Agip group) on the natural gas supply project from Egypt to Israel. In 2006, Mr Swersky was appointed Chairman of the Executive Committee of the newly established Center for Advanced Energy Studies at the University of Haifa. Mr Swersky serves as Chair of the Corporate Governance Committee.

None of our executive officers or directors have been involved in any bankruptcy proceedings within the last five years, been convicted in or has pending any criminal proceeding, been subject to any order, judgment or decree enjoining, barring, suspending or otherwise limiting involvement in any type of business, securities or banking activity or been found to have violated any federal, state or provincial securities or commodities laws.

Family Relationships

There are no family relationships among our current Directors and employees.

Board and Committees

Our board members are elected annually by our shareholders and hold office until the next annual shareholders meeting or until a successor is duly elected and qualified.

The Audit Committee oversees the actions taken by our independent registered public accountants and reviews our internal financial and accounting controls and policies. The Audit Committee also holds responsibility for our corporate governance and internal controls. In 2005, Professor Philip Pardo was designated as the Audit Committee financial expert and chairman. Currently the only other member of the committee is Mr D. Feldman, (independent director).

Nominating and Compensation Committee is responsible for determining salaries, incentives and other forms of compensation for our officers, employees and consultants and administers our incentive compensation and benefit plans. The Nominating and Compensation Committee also holds responsibility for director selection and governance with respect to the conduct of our Board. Our Nominating and Compensation Committee Chairman is Mr Feldman, independent director, together with Professor Pardo.

Nominating and Compensation Committee Interlocks and Insider Participation

The Nominating and Compensation Committee reviews and recommends to the board of directors the compensation and benefits of all our executive officers and establishes and reviews general policies relating to compensation and benefits of our employees. None of our executive officers served as a director, executive officer or member of a compensation committee of another entity of which one of its executive officers served on our Nominating and Compensation Committee. Except as described in "Certain Relationships and Related Transactions", no interlocking relationships exist between our board of directors or compensation committee and the board of directors or compensation committee of any other company, nor has any interlocking relationship existed in the past.

In the past, the Corporation' s board of directors has negotiated all executive salaries of our employees, including our Chief Executive Officer. Directors do not participate in approving or authorizing their own salaries as executive officers. Compensation for our Chief Executive Officer was determined by the Nominating and Compensation Committee after considering his efforts in assisting in the development of our business strategy, the salaries of executives in similar positions, the development and implementation of our diversification into oil and natural gas, and our general financial condition. Our board of directors believes that the use of direct stock awards is at times appropriate for employees, and in the future intends to use direct stock awards to reward outstanding service or to attract and retain individuals with exceptional talent and credentials. The use of stock options and other awards is intended to strengthen the alignment of interests of executive officers and other key employees with those of our stockholders.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities and Exchange Act of 1934 requires any person who is our director or executive officer or who beneficially holds more than 10% of any class of our securities which have been registered with the Securities and Exchange Commission, to file reports of initial ownership and changes in ownership with the Securities and Exchange Commission. These persons are also required under the regulations of the Securities and Exchange Commission to furnish us with copies of all Section 16(a) reports they file.

To our knowledge, based solely on our review of the copies of the Section 16(a) reports furnished to us and a review of our shareholders of record for the fiscal year ended 2006, there are no filing delinquencies to report.

All other Section 16(a) filing requirements applicable to our directors, executive officers and holders of more than 10% of any class of our registered securities were, to the best of our knowledge, timely complied with.

Code of Business Conduct and Ethics

On March 29, 2004, our board of directors approved and adopted our Code of Business Conduct and Ethics, which applies to all our officers, directors, employees and consultants. The Code of Business Conduct and Ethics is available on our website at **http://www.bigskycanada.com/investor/governance.php.** A printed copy of the Code is available, free of charge, upon written request, made to the office of the Corporate Secretary, by either facsimile at 403-265-8808 or by mail to Big Sky Energy Corporation, Suite 6, 8 Shepherd Market, Mayfair, London, W1J 7JY.

Other Matters Relating to Officers and Directors

From March 1, 2006 to the date of filing, the Corporation has contracted with NeMaSySS Consulting Ltd, a UK company (of whom the Corporate Secretary is a director) for the provision of corporate secretarial and corporate governance services. In lieu of maintaining formal offices as our corporate headquarters in London, UK, the Corporation relies upon and reimburses NeMaSySS Consulting Ltd. in respect of accommodation for its Corporate Secretary including housing its files and office services – under a Consulting Agreement which expires on February 28, 2009.

On November 6, 2006, Mr G.A.C. Moscato rendered his resignation from the Board of Directors of the Corporation.

On December 8, 2006, the Board of Directors ratified the appointment of Mr Daniel C. Feldman as Chair of the Nominating & Compensation Committee.

On March 13, 2007, the Corporation announced the resignation of Mr Bruce H Gaston as Chief Financial Officer and Director. Concurrently, the Corporation announced the appointment of Mr. Pankaj Mittal as Chief Financial Officer. Mr Mittal' s appointment ceased on July 19, 2007, as since that time the Executive Chairman of the Board, Mr Matthew J Heysel, P. Eng, has held overall responsibility for financial matters and acted as Principal Accounting Officer supported by both professional firms and in-house senior consultants in respect of the accounting and financial recording needs of the Corporation and the Corporate Secretary in respect of the regulatory, administrative and external liaison aspects.

ITEM 10. EXECUTIVE COMPENSATION.

We employ our executive officers as consultants. The following table sets forth the compensation paid to our Chief Executive Officer and the five other most highly compensated executive officers or consulted for the years indicated. No other executive officer of the Corporation earned a salary and bonus for such fiscal year in excess of $100,000. The following table represents executive compensation:

Summary Compensation Table

		Annual Compensation			Long Term Compensation			
						Awards Payouts		
Name and Principal Position	Fiscal Year Ended	Salary (US$)	Bonus (US$)	Other Annual Compen-sation (Shares)	Restricted Securities under Option/SAR Granted (US$)	Shares or Restricted Share Units (US$)	LTIP Payouts (US$)	All Other Compensation
Matthew Heysel, Executive Chairman	2006	429,515	0	0	544,613	0	0	0
	2005	352,000	0	500,000	325,479	0	0	0
Barry Swersky, Co-Chairman & Vice-President, Legal	2006	125,000	0	0	130,297	0	0	0
	2005	133,000	0	0	39,486	0	0	0
S.A. Sehsuvaroglu Chief Executive Officer	2006	360,000	100,000	0	5,493,932	0	0	0
	2005	514,890	0	0	1,450,959	0	0	0
Bruce H Gaston Chief Financial Officer	2006	252,777	100,000	0	1,732,408	0	0	0
	2005	247,000	0	0	162,740	0	0	0

Daming Yang	2006	126,285	100,000	0	730,050	0	0	0
Director	2005	85,000	0	0	0	0	0	0

On March 1, 2006, the Corporation granted S. A. Sehsuvaroglu, Bruce H. Gaston, and Daming Yang a cash award of $100,000 each in recognition of extraordinary services to the Corporation.

See ("**Notes to the Financial Statements – Subsequent Events**")

Option Grants

On March 1, 2006, the Corporation received an affirmative vote of the shareholders of record as of January 13, 2006, holding 65% of the issued and outstanding shares of the Corporation to increase the available shares under the Corporation' s Stock Award Plan to no greater than 20% of the issued and outstanding shares of common stock of the Corporation at that date of grant.

The following table sets forth information regarding stock option grants to our officers and directors for the year ending December 31, 2006 under the Corporation' s Big Sky Stock Award Plan, as amended by a vote of the Shareholders on March 1, 2006:

Individual Grants

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date
Matthew Heysel	1,062,500	937,500	$0.50	March 8, 2008
S.A. Sehsuvaroglu	1,333,333	2,666,667	$0.50	March 8, 2008
	3,000,000	-	$1.00	February 28, 2010
Bruce H. Gaston	531,250	468,750	$0.50	March 8, 2008
	1,000,000	-	$1.00	February 28, 2010
Barry R. Swersky	106,250	93,750	$0.50	March 8, 2008
	33,334	66,666	$0.50	September 14, 2008
	50,000	150,000	$1.00	July 25, 2010
Philip D. Pardo	106,250	93,750	$0.50	March 8, 2008
	33,334	66,666	$0.50	September 14, 2008
	50,000	150,000	$1.00	July 25, 2010
Servet Harunoglu	-	100,000	$0.50	September 14, 2008
	50,000	150,000	$1.00	July 25, 2010
Daniel Feldman	-	300,000	$1.00	February 28, 2010
	50,000	150,000	$1.00	July 25, 2010

Option Exercises

The following table sets forth details of each exercise of stock options as of December 31, 2006 by any of the Named Executive Officers, and the December 31, 2006 value of unexercised options on an aggregate basis.

Aggregated Options Exercised

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options as of 31 December, 2006 Exercisable/ Unexercisable	Value of Unexercised in the Money-Options at 31 December, 2006 Exercisable/ Unexercisable [1]
Matthew	Nil	Nil	500,000 (exercisable)	$125,000 (exercisable)

Heysel			1,500,000 (unexercisable)	$375,000 (unexercisable)
S.A. Sehsuvaroglu	Nil	Nil	7,000,000 (exercisable) 0 (unexercisable)	$0 (exercisable) $0 (unexercisable)
Bruce Gaston	Nil	Nil	1,531,250 (exercisable) 468,750 (unexercisable)	$132,813 (exercisable) $117,188(unexercisable)
Servet Harunoglu	200,000	248,000	25,000 (exercisable) 175,000 (unexercisable)	$0 (exercisable) $25,000 (unexercisable)

(1)Based on closing price of $0.75 on 31 December , 2006.

Director Compensation

Prior to May 10, 2005, we did not pay our directors any cash or stock compensation. Independent directors received stock options as compensation for their services to the Corporation. In 2005, we have begun to pay independent directors a cash amount of $5,000 per calendar year. Directors who are executive officers do not receive this cash payment. In addition, independent directors receive stock options for their service to the Corporation. The Corporation made this change in recognition that qualified independent directors are a valuable, scarce resource to the Corporation. We wish to remain competitive in our ability to attract qualified independent directors:

- a stipend of $5,000 per year for independent directors only;
- an attendance fee for each Board meeting of $5,000 per meeting;
- where a director attends the meeting via remote communication, the fee is $3,000 for the first such meeting and $1,000 for any subsequent remote attendance;
- attendance fee for each Board committee meeting shall be $1,500. Most committee meetings may be conducted by phone;
- additional work performed by a member as per Chairman' s request will be compensated with $1,500 per event; and
- Chairman of a committee, $5,000 per year.

Our independent directors have also been granted stock options to purchase shares of our common stock. The terms of stock option grants made to independent directors are determined by the board of directors. (**See "Option Grants")**

We reimburse directors for out-of-pocket expenses for attending board and committee meetings.

Alternative Compensation Plan

On August 30, 2006, the Corporation issued the final remaining shares under the Alternative Compensation Plan and this plan is now closed.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

We either directly or through our subsidiaries, have entered into consulting agreements with key individuals, including our executive officers, who perform services for us, as specified in the agreements. We use a standard form of consulting agreement, which defines terms of the agreement, services to be performed, compensation and benefits, confidentiality and individual specific benefits based on the requirements of the position. The following contracts were in place at December 31, 2006.

MH Financial Management Ltd. - Matthew Heysel Consulting Agreement*:* Mr. Heysel provides services as our Executive Chairman of the Board on a full-time basis through his company, M. H. Financial Management Ltd. under a consulting agreement, which expires December 31, 2006. M. H. Financial Management is paid at a rate of $1500 per day to a minimum of $37,500 CDN per month exclusive of travel expenses and Goods and Services Tax for Mr. Heysel' s services. The agreement contains non-compete provisions that restrict Mr. Heysel

from doing any business whatsoever with our clients in Kazakhstan or doing substantially similar work in Kazakhstan for a period of one year in the event Mr. Heysel is no longer contracted by us for any reason. Mr. Matthew Heysel' s consulting contract provides that should we terminate the agreement, Mr. Heysel would be paid $60,000 at the time of termination. The agreement provides that in the event of a change of control, Mr. Heysel is to be paid five percent (5%) of the value of the sale of our assets or the value of the transaction which would constitute a takeover of the Corporation. This amount is to be paid within 10 days of the transaction. A takeover of the Corporation is defined as:

- any change in the holding, either direct or indirect, of shares of the Corporation, or any reconstruction, reorganization, recapitalization, consolidation, amalgamation, merger, arrangement or other transaction, that results in a person who was, or a group of persons acting in concert who were, not previously in a position to exercise effective control of the Corporation, in excess of the number that would entitle the holders thereof to cast twenty (25%) percent or more of the votes attaching to all shares of the Corporation, and
- the exercise of such effective control to cause or result in the election or appointment of two or more directors of the Corporation, or of the successor to the Corporation, who were not previously directors of the Corporation

See ("**Notes to the Financial Statements - Subsequent Events**")

Suntree Ltd - Barry Raymond Swersky Consulting Agreement*:* Mr. Swersky provides consulting services to the Corporation through his company, Suntree Ltd. The Corporation and Suntree Ltd. executed a consulting agreement as of October 1, 2004 terminating on March 31, 2006 and later extended to March 31, 2007. Suntree Ltd. is compensated at a rate of $10,000 per month, plus expenses, other than travel.

See ("**Notes to the Financial Statements - Subsequent Events**")

MX Consulting Ltd - S.A. Sehsuvaroglu Employment Agreement*:* Mr. Sehsuvaroglu commenced providing services as President of the Corporation on March 1, 2005 and assumed the role of Chief Executive Officer on May 10, 2005. An employment agreement was entered into as of the commencement of his employment for a term to continue until February 29, 2008. The compensation under this agreement was initially set at the rate of $395,000 per annum, paid monthly, together with stock options for 3,250,000 share of common stock of the Corporation. By resolution of the Board of Directors dated March 29, 2005, the number of stock options was increased to 4,000,000 and by further resolution of the Board of Directors dated March 1, 2006, an additional grant of 3,000,000 options was ratified. In addition, the Board of Directors voted Mr. Sehsuvaroglu a cash bonus of $100,000. As of December 31, 2006, Mr Sehsuvaroglu stepped down as Chief Executive Officer and President. Under the terms of his settlement agreement he will continue to provide consultancy services to the Corporation for remuneration as above to December 31, 2007

Arcdan Limited - Bruce Hill Gaston Consulting Agreement*:* Mr. Gaston has provided services to Big Sky as Chief Financial Officer and as a Director since March 31, 2005. A consulting agreement was entered into on or about April 16, 2005, between Big Sky and Arcdan Inc., a company not directly controlled by Mr. Gaston, for a term of 3 years with compensation to be at the rate of $212,000 per annum, paid monthly, exclusive of taxes and expenses for the provision of Mr. Gaston' s services to the Corporation. By resolution of the Board of Directors dated March 8, 2005, Mr. Gaston was granted 1,000,000 stock options at $0.50 per share and this number was increased to 2,000,000 by further resolution of the Board of Directors dated March 1, 2006, in addition to a cash award of $100,000.00 in recognition of extraordinary services to the Corporation. Mr Gaston resigned as of March 13, 2007.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information concerning the beneficial ownership of our outstanding common stock as of March 21, 2008 for:

- each of our directors and executive officers individually;
- each person or group that we know owns beneficially more than 5% of our common stock; and
- all directors and executive officers as a group.

Rule 13d-3 under the Securities Exchange Act defines the term "beneficial ownership". Under this rule, the term includes shares over which the indicated beneficial owner exercises voting and/or investment power. The rule also deems common stock subject to options currently exercisable, or exercisable within 60 days, to be outstanding for purposes of computing the percentage ownership of the person holding the options but do not deem such stock to be outstanding for purposes of computing the percentage ownership of any other person. The applicable percentage of ownership for each shareholder is based on 166,432,498 shares of common stock outstanding as of March 21, 2008, together with applicable options for that shareholder. Except as otherwise indicated, we believe the beneficial owners of the common stock

listed below, based on information furnished by them, have sole voting and investment power over the number of shares listed opposite their names.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Shares Outstanding

Officers and Directors		
Matthew Heysel Villa 5, Port Said, Dubai UAE	11,844,799(1)(4)	7.1%
Philip Pardo 23 Huamei Road Tianhe, Guangzhou China	750,000(2)	0
Barry Swersky Box 110, 47100 Ramat Hasharon Israel	6,000,000(4)	3.6%
Servet Harunoglu Sezai Selek Sok. No. 15/3 Nisantasi Istanbul, Turkey	10,200,000(4)(5)	6.1%
Daniel Caleb Feldman 434 West 162nd Street New York NY 10032	(2) 750,000	0
Nancy M C S Swyer Suite 311, 840-6th Avenue SW Calgary, AB T2P 5E9	(2)(6) 481,555	0
Officers and Directors as a Group	30,025,654	16.8%
5% Shareholders		
ARC Energy Fund C/o Royal Trust Corporation of Canada 200 Bay Street Toronto, Ontario M5J 2J5	13,100,000	7.87%
Ingalls & Snyder Value Partners LP 61 Broadway New York, NY 10006	12,295,082	7.38%
ABT Ltd LLP Bldg 327, 5 aul, Kulsary, Atyrau Region Kazakhstan	15,000,000	9.01%
Frank E Holmes US Global Investors Inc. 7900 Callaghan Road San Antonio, TX 78229	8,349,950	5.01%

Avobone NV	10,000,000	6.0%
Cees J. de Bruin 9, Place du Bourg de Four 1204 Geneva Switzerland		
JPMorgan Chase & Co.	12,087,000	7.26%
270 Park Ave New York NY		

1. Includes 554,422 shares which are owned by Big Sky Holdings, a company over which Mr.Heysel has control, 2,759,910 shares which are owned by M.H. Financial Management Ltd., a company over which Mr. Heysel has control, 8,000,000 stock options vesting as per (4) below and 530,467 shares which Mr. Heysel owns directly (See "Subsequent Events").

2. Consisting of stock option grants fully vested

3. Consisting of stock option grants vesting as per Big Sky Stock Award Plan as amended by the shareholders on March 1, 2006

4. Includes Option Grants issued as of December 12, 2007 wherein all previous options were cancelled and new grants issued at $0.10. Vesting of all options, **20% immediately at the date of grant**, 10% when the common shares of the Corporation reached $0.35 cents, 25% at $0.50 cents and 45% at $1.00. (See "Subsequent Events")

5. Includes 200,000 shares which are owned directly by Dr Harunoglu subsequent his exercising 100,000 options at $0.50. (See "Subsequent Events")

6. Includes 31,555 shares which are owned directly by Ms Simpson Swyer subsequent to being issued as alternative compensation for fees outstanding.

As of the filing date of this report on Form 10-KSB, there are no arrangements that may result in a change in control.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Dr Servet Harunoglu, appointed as Chief Executive Officer as of December 9, 2006 – provides services under a Consulting Agreement with Hillgate Associates Ltd.

All other consulting agreements on behalf of directors are disclosed herein where appropriate .

On March 1, 2006, the Corporation resolved to establish its corporate headquarters in London, UK. The Corporation utilizes the services of NeMaSySS Consulting (Intl) Ltd, a UK entity of which the Corporate Secretary is a director, under a Consulting Agreement dated March 1, 2006, expiring February 28, 2009. To date, the Corporation has been unable to establish a bank account in London, UK nor has it incepted formal offices and therefore relies upon NeMaSySS Consulting (Intl) Ltd to provide all required services to support its corporate secretarial, corporate governance requirements including payment on its behalf of its obligations in respect of accommodation and related costs for use by the Corporate Secretary, as required under the Consulting Agreement. NeMaSySS Consulting (Intl) Ltd, submits monthly invoices for reimbursement to the Corporation in respect of such payments.

ITEM 13. EXHIBITS

Exhibit No. Description

3.1 Articles of Incorporation of the Corporation filed with the Secretary of the State of Nevada on February 9, 1993, and as amended on March 22, 2000; April 14, 2000; December 29, 2003; April 20, 2004; December 9, 2004; and March 7, 2006.

3.2 Amended and Restated By-Laws of the Corporation, dated March 1, 2006.

10.1 *(1)* Contract for exploration and production of hydrocarbons at Dauletaly Field dated February 17, 2003 between KoZhaN LLP and the Ministry of Energy and Mineral Resources of Kazakhstan.

10.2 *(1)* Contract for exploration and production of hydrocarbons at Karatal Field dated February 17, 2003 between KoZhaN LLP and the Ministry of Energy and Mineral Resources of Kazakhstan.

10.3 *(1)* Contract for exploration and production of hydrocarbons at Morskoe Field dated February 17, 2003 between KoZhaN LLP and the Ministry of Energy and Mineral Resources of Kazakhstan.

10.4 *(2)* Audit Committee Charter, amended 12 November, 2003.

10.5 Big Sky Stock Award Plan, as amended by the shareholders, March 1, 2006.

10.6 Consulting Agreement dated December 9, 2007, between Big Sky Energy Corporation and M.H. Financial Management Limited.

10.7 Consulting Agreement dated December 9, 2007, between Big Sky Energy Corporation and Hillgate Associates Ltd.

10.8 Consulting Agreement dated December 9, 2007, between Big Sky Energy Corporation and Suntree Limited.

31.1 Section 302 Certification – Chief Executive Officer.

31.2 Section 302 Certification – Chief Financial Officer.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Executive Officer.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Chief Financial Officer.

(1) Incorporated by reference to the Exhibits filed with the Corporation' s Form 10-KSB on March 30, 2004.

(2) Incorporated by reference to the Exhibits filed with the Corporation' s Form SB-2 on July 28, 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit Fees

The aggregate fees billed for professional services rendered by L J Soldinger Associates LLC for the audit of our annual financial statements and review of financial statements included in our Form 10-QSB quarterly reports and services normally provided such firms in connection with statutory and regulatory filings or engagements were $870,000 (2005 - $729,000).

Audit-Related Fees

There were no fees for other audit related services for the fiscal years ended 2006 and 2005.

Tax Fees

The aggregate fees billed for the last two fiscal years for professional services rendered by L J Soldinger Associates LLC for tax compliance, tax advice, and tax planning was $0 for fiscal year 2006 (2005 - $0).

All Other Fees

There were no other aggregate fees billed in either of the last two fiscal years for products and services provided by L J Soldinger Associates LLC, other than the services reported above.

Pre-approval Policy and Procedure

The following policy and procedure has been adopted and incorporated into our Audit Committee charter:

All services provided by the independent auditor whether they be audit related or non-audit related, shall be pre-approved in writing either a) prior to the commencement of the contemplated services, or b) after the commencement of the contemplated services but before the completion of such services.

The Chairman of the Audit Committee or the designated Financial Expert, should they also be, at the time of approval, an independent director, are empowered to approve the contemplated services to be provided by the independent auditor on behalf of the committee. All approvals taken by the Chairman or Financial Expert must be disclosed to the committee as a whole either a) in writing or by e-mail at the time of the approval; or b) verbally at a subsequent committee meeting.

Since September 4, 2003, the date our Audit Committee members were appointed to the Committee, they have approved all services provided by L J Soldinger Associates LLC. Prior to this, services were not pre-approved.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Corporation caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, as follows:

Big Sky Energy Corporation

Date: April 02, 2008 By /s/ Servet Harunoglu

Name: Servet Harunoglu

Title: Chief Executive Officer

(Principal Executive Officer)

Date: April 02, 2008 By /s/ Mathew J. Heysel

Name: Matthew J Heysel

Title: Executive Chairman of the Board, Director and Principal Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Corporation and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Matthew Heysel Matthew Heysel	Director	April 02, 2008
/s/ Daniel C. Feldman Daniel C. Feldman	Director	April 02, 2008
/s/ Philip Pardo Philip Pardo	Director	April 02, 2008

/s/ Barry Swersky Barry Swersky	Director	April 02, 2008
/s/ Servet Harunoglu Servet Harunoglu	Director	April 02, 2008

BIG SKY ENERGY CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Big Sky Energy Corporation
Calgary, Alberta, Canada

We have audited the accompanying consolidated balance sheets of Big Sky Energy Corporation as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2006. These financial statements are the responsibility of the Company' s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company' s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Big Sky Energy Corporation as of December 31, 2006 and 2005, and its consolidated results of operations, and its cash flows for each of the years in the two-year period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred net losses since inception, expects to continue to incur losses, and is involved in litigation. Also, the Company may not have sufficient funds to execute its business plan. These conditions raise substantial doubt about the Company' s ability to continue as a going concern. Management' s plans regarding those matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Notes 3 and 16 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), "Share Based Payment" and FSP EITF 00-19-2 "Accounting for Registration Payment Arrangements."

L J SOLDINGER ASSOCIATES LLC

Deer Park, Illinois, USA
April 1, 2008

BIG SKY ENERGY CORPORATION

Consolidated Balance Sheets

	December 31,	
	2006	2005
Assets		
Current		
Cash and cash equivalents	**$1,833,679**	$ 12,042,965
Restricted cash	**40,000**	40,000
Advances to related parties	**7,174**	7,174
Accounts receivable	**70,734**	436,684
Other current assets	**109,859**	2,046,063
Prepaid expenses	**741,275**	1,785,391
Subscription funds receivable	**-**	11,466,989
VAT receivable	**-**	1,137,159
	2,802,721	28,962,425
Long-Term		
Property and equipment	**655,085**	755,336
Oil gas properties (Unevaluated of $6,867,269 and $0, respectively)	**16,016,671**	20,726,039
Deferred loan costs		-
	468,750	**-**
Provision for loss contigency	**(5,175,000)**	-
Total Assets	**$ 14,768,227**	$ 50,443,800
Liabilities		
Current		
Accounts payable and acrrued liabilities	**$ 9,418,857**	$ 10,955,146
Income taxes payable	**808,450**	-
Due to ABT, LLP	**1,219,266**	1,426,582
Minority buyout payable	-	1,275,000
Registration rights penalty payable	-	11,435,300
Obligations for social sphere development	**398,000**	620,000
Obligations for professional training of personnel	**426,900**	255,000
VAT payable	**421,464**	-
Deferred revenue	**318,894**	86,304
Due to related parties	**25,565**	25,565
	$ 13,037,396	$ 26,078,897
Long-Term		
Long term debt	**14,722,522**	-
Obligations for social sphere development	**197,392**	235,728
Obligations for professional training of personnel	**20,290**	37,933
Asset retirement obligation	**559,546**	402,335

Deferred income tax liability	**97,000**	1,848,980
Total Liabilities	**$ 28,634,146**	$ 28,603,873
Commitments and Contingencies		
Stockholders' Equity (Deficit)		
Common stock	**$ 226,364**	$ 201,125
$0.001 par value, shares authorized: 350,000,000 and 150,000,000		
shares issued, issuable and outstanding 167,945,998		
December 31, 2006 (December 31, 2005 142,706,697)		
Additional paid in capital	**164,286,462**	99,558,376
Deferred compensation	**-**	(3,070,661)
Accumulated deficit	**(178,378,745)**	(74,848,913)
	(13,865,919)	21,839,927
Total Liabilities and Stockholders' Equity	**$ 14,768,227**	$ 50,443,800

The accompanying notes are an integral part of this consolidated financial statement.

BIG SKY ENERGY CORPORATION

Consolidated Statements of Operations

For the Years Ended December 31, 2006 and 2005

	2006	**2005**
Revenue, net of royalty	**$ 8,547,584**	$ 525,518
Expenses		
Operating costs	**(2,311,319)**	(178,968)
General and administrative expenses	**(37,009,504)**	(17,252,551)
Geological and geophysical	**(2,722,358)**	(6,339,377)
Depreciation, depletion and amortization	**(7,958,712)**	(117,473)
Accretion expense	**(224,142)**	(182,784)
Impairment of oil and gas properties	**(50,267,353)**	(9,537,245)
Provision for loss contingency	**(5,175,000)**	-
Total expenses	**(105,668,388)**	(33,608,398)
Other (expenses) income		
Foreign exchange loss	**(516,948)**	(392,167)
Registration rights penalty	**(4,584,908)**	(11,435,300)
Interest expense	**(685,140)**	-
Other costs	**(16,062)**	-
Interest income	**202,480**	246,569
Total other expenses net	**(5,600,578)**	(11,580,898)
Loss from operations before income taxes	**(102,721,382)**	(44,663,778)

Income tax	**(808,450)**	
Net Loss	**(103,529,832)**	(44,663,778)
Deficit, Beginning of Period	**(74,848,913)**	(30,185,135)
Deficit, End of Period	**$ (178,378,745)**	$ (74,848,913)
Loss Per Share		
Basic and diluted - net loss	**$ (0.66)**	$ (0.43)
Shares Used in Computation		
Basic and diluted	**$ 156,499,590**	$ 104,194,520

The accompanying notes are an integral part of this consolidated financial statement.

BIG SKY ENERGY CORPORATION

Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional Paid-in	Deferred	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Compensation	Deficit	Equity
Balance at December 31, 2004	68,119,460	$ 126,538	$ 43,484,352	$ (27,926)	$ (30,185,135)	$ 13,397,829
Amortization of deferred compensation	-	-	-	2,299,235	-	2,299,235
Deferred compensation	-	-	5,341,970	(5,341,970)	-	-
Alternative compensation plan	856,027	856	(856)	-	-	-
Stock issued pursuant to private placement agreements at $0.50 per share	27,250,000	27,250	12,737,534	-	-	12,764,784
Stock issued pursuant to private placement agreement at $1.00 per share	39,890,745	39,891	36,469,733	-	-	36,509,624
Stock issued pursuant to Stock awards	750,000	750	824,250	-	-	825,000
Options exercised	5,050,000	5,050	302,950	-	-	308,000
Warrants exercised	785,465	785	391,948	-	-	392,733
Stock issued for services	5,000	5	6,495	-	-	6,500
Net loss	-	-	-	-	(44,663,778)	(44,663,778)
Balance at December 31, 2005	142,706,697	201,125	99,558,376	(3,070,661)	(74,848,913)	21,839,927
Deferred compensation	-	-	(3,070,661)	3,070,661	-	-
Alternative compensation plan	461,171	461	(461)	-	-	-
Stock issued pursuant to private placement agreement at $1.00 per share	850,000	850	849,150	-	-	850,000
Options exercised	1,050,000	1,050	141,450	-	-	142,500
Stock based compensation	-	-	16,349,743	-	-	16,349,743
Stock issued for acquisition of oil & gas properties	15,000,000	15,000	34,035,000	-	-	34,050,000
Stock issued for services	86,555	86	139,654	-	-	139,740
Penalty shares issued	5,050,000	5,050	9,839,708	-	-	9,844,758

Penalty shares issuable	2,741,575	2,742	5,404,149	-	-	5,406,891
Debt conversion benefit	-	-	271,855	-	-	271,855
Warrants issued	-	-	768,499	-	-	768,499
Net loss	-	-	-	-	(103,529,832)	(103,529,832)
Balance at December 31, 2006	167,945,998	$ 226,364	$ 164,286,462	$ -	$ (178,378,745)	$ (13,865,919)

The accompanying notes are an integral part of this consolidated financial statement.

BIG SKY ENERGY CORPORATION

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash Flows Related to the Following Activities		
Cash Flow from Operating Activities		
Net Loss	**$ (103,529,832)**	$ (44,663,778)
Adjustment for:		
Depreciation, depletion and amortization	**7,958,712**	117,473
Accretion	**224,142**	182,784
Non-cash interest expense	**247,625**	-
Impairment of oil and gas assets	**50,267,353**	9,537,245
Loss on sale of assets	**9,866**	20,634
Subsoil use contract expenditures	**171,900**	197,415
Penalty share expenses	**4,584,908**	11,435,300
Stock issued for services	**139,740**	-
Non-cash stock and options compensation	**16,349,743**	3,130,731
Provision for loss contingency	**5,175,000**	-
Changes in operating assets and liabilities-		
Restricted cash	-	23,040
Accounts receivable	**445,439**	(1,510,467)
Other current assets	**661,204**	-
VAT receivable	**1,558,623**	-
Prepaid expenses and other current assets	**1,044,118**	(1,664,426)
Accounts payable and accrued liabilities	**(1,536,349)**	10,280,294
Deferred revenue	**232,590**	-
Income taxes payable	**808,450**	-
Net cash used in operating activities	**(15,186,768)**	(12,913,755)
Investing		
Fixed asset additions	**(151,505**)	(509,366)
Capital expenditure-oil and gas properties	**(21,117,513)**	(12,316,047)
Advances (to) from related companies	-	38,591
Acquisition of KoZhaN minority interest	-	(1,275,000)
Net cash used in investing activities	**(21,269,018)**	(14,061,822)
Financing		
Issue of common stock for cash	**12,380,000**	42,774,446
Production sharing contract obligations	**(508,500)**	(552,834)

Stock issuance obligations	-	(4,186,804)
Proceeds from long term debt	**15,000,000**	-
Payment of Loan fees	(625,000)	-
Net cash provided by financing activities	**26,246,500**	38,034,808
Net Increase (Decrease) in Cash and Cash Equivalents	**(10,209,286)**	11,059,231
Cash and Cash Equivalents,		
Beginning of Period	**12,042,965**	983,734
End of Period	**$ 1,833,679**	$ 12,042,965

Cash paid for interest and taxes were $0 and $0 in 2006 and 2005, respectively.

The accompanying notes are an integral part of this consolidated financial statement.

BIG SKY ENERGY CORPORATION

Notes to Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

a) Incorporation and Background

Big Sky Energy Corporation (the "Corporation" or "Company") was incorporated in Nevada in February 1993 under the name "Institute for Counseling, Inc." On April 27, 2000, Institute for Counseling, Inc. changed its name to China Broadband Corp. On December 29, 2003, China Broadband Corp. changed its name to China Energy Ventures Corp. and on December 3, 2004 China Energy Ventures Corp. changed its name to Big Sky Energy Corporation. The Corporation has acquired and is in the process of developing its oil and gas properties in Kazakhstan.

On April 14, 2000, the Corporation, a public shell company, acquired China Broadband (BVI) Corp. ("CBB -BVI") through a reverse acquisition, which was accounted for as a recapitalization.

b) Investment in Properties

Late in 2003, the Corporation began transitioning to become an oil and natural gas exploration and production company. On December 9, 2004, the Company sold Big Sky Network Canada Ltd., which held all of the Corporation' s Chinese investments. The transition continued with the acquisition of KoZhaN, LLP, a Kazakhstan limited liability partnership ("KoZhaN"), described below, and continued with the acquisition of Vector Energy West, LLP, a Kazakhstan limited liability partnership ("VEW"), also described below. By acquiring such companies the Corporation gained a significant acreage position in the prolific pre-Caspian basin of western Kazakhstan located close to infrastructure and transportation.

On January 12, 2004, the Corporation completed the acquisition of 100% of the issued and outstanding share capital of Big Sky Energy Kazakhstan Ltd, a wholly owned Canadian subsidiary ("BSEK") thereby acquiring a 90% interest in KoZhaN, and on May 11, 2004, the Corporation completed the acquisition of 100% of the outstanding share capital of VEW through its 75% owned Canadian subsidiary, Big Sky Energy Atyrau Ltd. ("BSEA") and on December 10, 2004 completed the acquisition of the remaining 25% of BSEA.

On November 22, 2005, the Corporation entered into an agreement to purchase the remaining 10% interest in KoZhaN (see Note 4).

The Corporation acquired, through its acquisitions KoZhaN and VEW, Subsurface Use Contracts with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (the "MEMR") to explore for and produce hydrocarbons in the Morskoye, Karatal and Dauletaly blocks and the Atyrau and Liman-2 blocks, respectively, all located in the Atyrau region of western Kazakhstan (the "Subsurface Use Contracts").

2. GOING CONCERN, FINANCIAL CONDITION, AND MANAGEMENT PLAN

Our consolidated financial statements as of December 31, 2006 have been prepared under the assumption that we will continue as a going concern for the year ending December 31, 2006. The Corporation incurred losses of $103 million and $44.7 million in 2006 and 2005, respectively, and has an accumulated deficit of $178 million at December 31, 2006. In addition, we expect to continue to incur losses until such time as we can increase our production of oil and natural gas.

During 2006, the Corporation utilized cash for management and corporate administrative activities of approximately $1.27 million per month. In 2007, corporate and administrative costs were lower due to more efficient business activity in Kazakhstan but expected to average $1.0 million per month.

At December 31, 2006, current liabilities exceeded current assets by approximately $10,235,000.

During 2006, an impairment of the KoZhaN oil and gas assets of $46.3 Million was recorded as a result of the Corporation performing impairment testing using the results of an independent valuation of the Corporation' s reserves performed as of the first Quarter 2006. This was a one time write down but significantly impacts the Corporation' s financial position.

The Company is being sued by the spouses of the parties who sold the Company its sole revenue producing subsidiary, which contains all of the Company' s oil assets, in an attempt to negate the sale. The Company, after initially successfully defending its position in court, lost subsequent court cases and appeals related to this matter. If the Company does not successfully defend its interest it could lose up to 90% of its ownership interest in that subsidiary and the related revenue therefrom.

Current cash resources are not anticipated to be sufficient to fund the expansion in the oil and natural gas business and the Corporation will need to consider seeking additional private equity or debt financing.

The Company is restricted in its ability to raise additional debt funding under its provisions in its current convertible note agreement.

The Corporation was subject to a cease trade order pertaining to the Over the Counter Bulletin Board, for the majority of 2006 and all of 2007 since it is significantly delinquent in its filings with the Securities and Exchange Commission. There can be no assurances that once in good standing any such funds will be available, and if funds are raised, that they will be sufficient to achieve the Corporation' s objective, or result in commercial success.

These factors listed above raise substantial doubt in our ability to continue as a going concern.

The Company' s ability to continue as a going concern is dependent upon raising capital through debt and equity financing on terms desirable to the Company, attain further operating efficiencies, reduce expenditures, and, ultimately, to generate revenue. If the Company is unable to obtain additional funds when they are required or if the funds cannot be obtained on terms favorable to the Company, management will be required to delay, scale back or eliminate its well development program or license third parties to develop or market products that the Company would otherwise seek to develop or market itself, or even be required to relinquish its interest in the properties or in the extreme situation, cease operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As of December 31, 2006, the Corporation had outstanding current liabilities of approximately 13 million. During 2007 and into early 2008, management has and is addressing the satisfaction of these liabilities in several ways:

- engaging with tax and other authorities to negotiate and agree settlement figures and making good faith payments funded from production income;
- negotiating the inclusion of existing accounts payable into new contracts with suppliers, wherein such payment obligations will be rolled into the new contract payments and spread out over the term of the new contract and thus able to be paid off from production income
- ongoing negotiation with other suppliers in an attempt to reach settlement
- ongoing disputation of such accounts payable

It is management' s intention to address the matter of the $15 million Convertible Note coming due and payable as of June 30, 2008 by entering into a dialogue with the Noteholders with a view to negotiating either an extension of time to pay or alternative settlement of this indebtedness.

Meeting the Corporation' s future financing requirements for all other projects will be dependent on the success of the Morskoye wells and any follow up wells, and any resulting cash flows from operations, its ability to develop further oil and gas joint venture partnerships on favorable terms, its ability to access equity capital markets and, after achieving or acquiring sustainable production if any, obtaining credit facilities from institutional lenders. While there can be no assurances that any such funds will be available, and if funds are raised, that they will be sufficient to achieve the Corporation' s objective, or result in commercial success. The Corporation cannot assure that it will be able to obtain sufficient capital, develop joint venture partnerships or achieve or acquire sustainable production to satisfy all of its obligations or that its operating subsidiaries will be commercially successful. Should the Corporation be unable to meet its obligation under the Subsurface Use Contracts due to a lack of capital, the MEMR has the right to terminate the contracts after giving the Corporation 90 day' s written notice. If the Corporation is unable to raise additional funds when needed or if such funds cannot be obtained on terms favorable to it, it may not be able to conduct operations, and in the extreme case, may be required to terminate operations and liquidate.

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3. ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries:

Big Sky Energy Corp (“BSEC”)
Big Sky Energy Kazakhstan (“BSEK”)
Big Sky Energy Atyrau (“BSEA”)
Vector Energy West, LLP (“VEW”)
KoZhaN, LLP (“KoZhaN”)

All inter-company accounts and transactions have been eliminated.

Cash and Cash Equivalents

The Corporation considers all highly liquid debt instruments with maturities at the date of purchase of three months or less to be cash equivalents.

Restricted Cash

The amount of $40,000 is maintained on deposit to secure corporate credit card balances and as a deposit on oil and gas operations.

Trade Receivables

The Corporation has trade receivables from the sale of and delivery of oil and gas products. Accounts are written off against the allowance for doubtful accounts when we determine that amounts are not collectable and recoveries of previously written-off accounts are recorded when collected. The allowance for doubtful accounts is estimated based off of known problem accounts and current economic conditions in Kazakhstan.

There were no uncollectible trade receivable write-offs in 2006 or 2005.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. In 2005 the depreciation method was changed from declining balance to straight line method over the useful life of the assets which was reduced in 2005 to 7 years and 3 years for furniture and fixtures and computer hardware, respectively. The effect of the change in amortization methods and useful lives was immaterial to the financial statements.

Vehicles	5 years
Equipment	5 years
Furniture and	7 years
Computer	3 years

Amortization of leasehold improvements and assets recorded under capital lease agreements are computed using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets.

Oil and Gas Properties

The Corporation follows successful efforts accounting for its oil and gas business. All property acquisition costs are initially capitalized to oil and gas properties as unproved property costs. Once proved reserves are discovered, the acquisition costs are reclassified to proved property acquisition costs. Exploration drilling costs are capitalized pending evaluation of the group of wells in the area as to whether sufficient quantities of reserves have been found to

justify commercial production. If commercial quantities of reserves are not found, exploration drilling costs are expensed. All exploratory wells that discover potentially commercial quantities of reserves in areas requiring major capital expenditures before the commencement of production and where commercial viability requires the drilling of additional exploratory wells, remain capitalized as long as the drilling of additional exploratory wells is under way or firmly planned. All other exploration costs, including geological and geophysical and annual lease rentals are expensed to earnings as incurred. All development costs are capitalized as proved property costs.

Depreciation, depletion and amortization on oil and gas assets are provided on the unit of production basis. Land and lease costs relating to producing properties are depreciated and depleted over the remaining estimated proved reserves. Development and exploration drilling and equipping costs are depleted over remaining proved developed reserves and proved property acquisition costs over remaining proved reserves. Unit-of-production rates are based on the amount of proved developed reserves of oil, gas and other minerals that are estimated to be recoverable from existing facilities using current operating methods. Depletion is considered a cost of inventory when the oil and gas is produced. When this inventory is sold, the depletion is charged to depreciation, depletion and amortization expense.

The Corporation annually assesses all existing capitalized exploratory well costs on a field-by-field basis for impairment. An impairment reserve is created when either of two criteria is met:

a) Well has not found a sufficient quantity of reserves to justify its completion as a producing well, or

b) The Corporation is not making sufficient progress towards assessing the reserves and the economic and operating viability of the project

Impairment of Oil and Natural Gas Properties

The Corporation reviews its long-lived assets, including oil and gas properties, for possible impairment by comparing the carrying values with the undiscounted future net before-tax cash flows. Asset impairment may occur if a field discovers lower than anticipated reserves, write downs of proved reserves based on field performance, significant changes in commodity prices, significant decreases in the market value of an asset, and significant change in the extent or manner of use or physical change in an asset. Impaired assets will be written down to their estimated fair values, generally their discounted future net before-tax cash flows. For proved oil and gas properties, the Corporation performs the impairment test on an individual field basis. Unproved properties are reviewed periodically to determine if there has been impairment of the carrying value with any such impairment charged to expense in the current period. In the current year, the Corporation had a large write off due to an independent review of the Corporation' s oil and natural gas reserves. For more information refer to note 9

Borrowing Costs

Interest costs related to external financing of the acquisition of the subsurface use rights, conducting exploration activities and financing major oil and gas development projects are capitalized as part of related assets until the projects are evaluated, or until the projects are substantially complete and ready for their intended use if the projects are evaluated as successful.

Long- Lived Assets

The Corporation evaluates its long- lived assets for impairment using the guidance of Statement of Financial Accounting Standard ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No.144 establishes a single accounting model for long-lived assets to be disposed of by sale and requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations.

Goodwill and Other Intangible Assets

The Corporation reviews the valuation of goodwill and intangible assets at least annually or changes in circumstances indicate that the carrying value of the asset may be impaired. An impairment loss is recognized when the estimated

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undiscounted future cash flow expected to result from the use and disposition of the asset is less than the carrying value of the asset.

There was no impairment of intangible assets in 2006 or 2005.

Revenue Recognition

Oil and gas revenues are recognized when the products are delivered to the purchaser' s facilities and collectability is reasonably assured.

Income Taxes

Income taxes are accounted for under the liability method in accordance with Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes". Tax on the income or loss for the period comprises current tax and any change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, and any adjustment of tax payable for previous years.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is realized.

The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income in the reporting periods in which the originating expenditure becomes deductible. In assessing the recoverability of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. In making this assessment, management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies. Valuation allowances are established, when appropriate, to reduce deferred tax assets to the amount expected to be realized.

Foreign Currency Translation

In accordance with the Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" the financial statements of two subsidiaries of the Corporation, KoZhaN and VEW have been translated into United States Dollars ("US Dollars") from Kazakhstan Tenge ("Tenge"). KoZhaN and VEW maintain their accounting records in Tenge. A majority of KoZhaN' s and VEW' s capitalized costs, expenses, liabilities, loans and cash flows are denominated in US Dollars. Accordingly, KoZhaN and VEW have determined that the US Dollars is its functional currency.

KoZhaN' s and VEW' s long-lived assets and equity are translated using historic exchange rates. Gains and losses arising from these translations are reported in the consolidated statement of operations.

The Kazakhstan Tenge is not a fully convertible currency outside of the Republic of Kazakhstan. The translation of Tenge denominated assets and liabilities into US Dollars for the purpose of these financial statements does not indicate that the Corporation could realize or settle in US Dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Corporation could return or distribute the reported US Dollars values of capital and retained earnings to its shareholders.

Advertising Costs

The Corporation has incurred $1,768,350 (2005 - $2,085,390) in advertising costs for the year. The advertising costs are expensed over the period that the advertisements take place.

Employee Benefits

Pension payments- The Corporation pays into an employee accumulated pension fund an amount equivalent to 10% of employees' salaries for employees of its Kazakhstani operations. These amounts are expensed when they are incurred.

Social tax -The Corporation makes payments of mandatory social tax in the amount of 21% of employee salaries for employees of their Kazakhstani operations. These costs are recorded in the period when they are incurred and capitalized as part of oil and natural gas properties or included with general and administrative expenses in the consolidated statement of operations.

Stock-Based Compensation

Effective January 1, 2006 the Corporation adopted Statement of Financial Accounting Standard ("SFAS") No. 123 (revised 2004), "Share Based Payment" ("SFAS No. 123(R)"). Generally, the fair value approach in SFAS No. 123(R) is similar to the fair value approach described in SFAS No. 123. We adopted SFAS No. 123(R), using the modified-prospective method, beginning January 1, 2006. We also elected to estimate the fair value of stock options using the Black-Scholes option pricing model.

The Corporation' s policy is to issue new shares of its Common stock when employees exercise options awarded under its Option Plan. See Note 17 to the Financial Statements.

As permitted under SFAS No.123, the Corporation applied the intrinsic value method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock-based grants to employees and directors in 2005. Under the "intrinsic value" method, an option' s value is the excess of the market price of the underlying stock on the date of grant over the exercise price of the option. No value is attributed to the option if its exercise price is greater than the stock' s market price. Had the Corporation continued to use the intrinsic value provisions under APB Opinion No. 25, employee and director stock-based compensation would have been $9,357,167, net of income taxes, for the year ended December 31, 2006. The change increased reported net loss and basic and diluted loss per share for the year ended December 31, 2006 by $6,992,576 and $0.07, respectively. The change had no effect on the Corporation' s cash flow from operating, investing or financing activities.

The following table illustrates the effect on net loss and loss per share if the Corporation had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation in the year ended December 31, 2005.

Net loss, as reported	(44,663,778)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	2,258,829
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	$ (4,732,931)
Pro-forma net loss	(47,137,880)
Net loss per share:	
Basic and diluted – as reported	(0.43)
Basic and diluted – pro-forma	(0.45)

The fair value of stock options used in computing the pro forma net loss and basic loss per common share was estimated at the grant date, and determined by the Black-Scholes option pricing model with the following assumptions:

	Year Ended December 31,	
	2006	**2005**
Dividend yield	0%	0%
Expected volatility	87%	135%
Risk free interest rate	4.7%	3.8%
Expected option life	3.4 years	3 years

Net Loss Per Share

Basic loss per share ("EPS") excludes dilution and is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock (warrants to purchase common stock and common stock options) were exercised or converted into common stock, using the treasury stock method. Potential common shares in the diluted EPS computation are excluded in net loss periods, as their effect would be anti-dilutive.

In 2006 – 32,983,332 shares were issuable upon the exercise or conversion of options, convertible debt and warrants and were excluded in the calculation of net loss per share (2005 - 18,088,250 shares).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates include, but are not limited to, the quantity of proved oil reserves and the future cash flows from proved oil and gas properties, using a 15% discount rate as the cost of capital for estimating the present values of cash flows to retire future liabilities associated with its subsoil use contracts, using an estimate of $20,000 for the cost of restoring and abandoning individual well sites in Kazakhstan and for reserving 100% of its deferred tax assets.

Concentrations of Credit and Market Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash deposits at financial institutions. The Company does not maintain US bank accounts and therefore all of our cash is at risk. The Company deposits its cash at high quality financial institutions and believes the risk of loss to be minimal.

As an independent oil and gas producer, our revenue, profitability and future rate of growth are substantially dependent upon prevailing prices for oil and gas, which are dependent upon numerous factors beyond our control, such as economic, political and regulatory developments and competition from other sources of energy. The energy markets have historically been very volatile, and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. A substantial or extended decline in oil and gas prices could have a material adverse effect on our financial position, results of operations, cash flows and our access to capital and on the quantities of oil and gas reserves that may be economically produced.

The Company had oil sales to four customers in 2006 and each customer share was greater than 10% of total sales.

Recent and Pending Accounting Pronouncements

In July 2006, the FASB issued an interpretation which clarifies the accounting for uncertainty in income taxes recognized in a company' s financial statements by prescribing a recognition threshold and measurement attribute for

the financial statement recognition and measurement of a tax position taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This new accounting guidance is effective for fiscal years beginning after December 15, 2006. The Corporation is still evaluating the effect this new guidance will have on its financial statements in 2007.

In September 2006, the FASB issued a new standard which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Corporation is reviewing the interpretation and analyzing the potential impact, if any, of this new guidance.

In September 2006, the Securities and Exchange Commission published guidance requiring registrants to quantify misstatements using both the balance-sheet and income-statement approaches, with adjustment required if either method results in a material error. The provisions are effective for annual financial statements for the first fiscal year ending after November 15, 2006. Upon adoption, these provisions had no effect on the Corporation' s financial position, results of operations, and cash flows.

4. BUSINESS COMBINATIONS

In November 2005, the Corporation entered into an agreement, which was consummated in December 2005, with the 10% minority holders of KoZhaN, LLP to buy their 10% interest for a purchase price of $1,275,000 which resulted in KoZhaN becoming a wholly owned subsidiary of the Corporation. The purchase price was allocated to oil and gas properties for $1,721,250 and deferred income tax liability of $446,250.

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	December 31,	
	2006	**2005**
Prepaid Expenses		
Prepaid oil and gas suppliers	$ 582,513	$ 642,110
Prepaid advertising	-	434,832

Prepaid insurance		129,226		417,581
Prepaid other		29,536		290,868
	$ 741,275		$ 1,785,391	

Other Current Assets

Due from KoZhaN, LLP Escrow (see Note 11)	$ -		$ 1,275,000	
Due from Remas LLP		-		551,000
GST refunds receivable		-		143,404
Other assets		109,859		76,659
	$ 109,859		$ 2,046,063	

In July 2005, the Corporation entered into a series of agreements with Remas, LLP, a Kazakhstan limited liability partnership ("Remas"), to farm in to 50% of Remas' subsoil use contract rights for the Alakol field in Kazakhstan, subject to approval of the farm-in by the MEMR. Under these agreements, the Corporation agreed to finance 100% of up to $10 million, however $5 million was to be repaid by Remas from its revenues received from this project. After the first $10 million of financing, the Corporation and Remas agreed to provide further financing of $12,600,000, split equally between them. The Corporation had the option to provide for Remas' portion of such financing and in compensation was entitled to receive an additional interest of up to 25% of the project. If the MEMR did not approve such additional interest transfer, Remas had to pay such amount within 10 days after receipt of such disapproval. In 2005, as part of the agreement, the Corporation provided Remas with interest free loans of $551,000 which were

secured by a mortgage of a private house and adjacent land plot in Almaty Kazakhstan. In December 2005, Remas notified the Corporation that the MEMR had disallowed the farm-in. The loans were repaid in full in 2006.

6. SUBSCRIPTION FUNDS RECEIVABLE

The remaining funds held by the escrow agent for the August 2005 and December 2005 private placements (see Note 16), which consisted of $11,387,500 of common stock subscriptions receivable and $79,489 of interest, were disbursed to the Corporation in January 2006.

7. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	December 31,			
	2006		**2005**	
Vehicles	$ 190,409		$ 196,094	
Furniture and fixtures	560,905		431,224	
Computer hardware and software	236,639		208,843	
Leasehold improvements	130,784		140,937	
	1,118,737		977,098	
Accumulated depreciation and amortization	(463,652)		(221,762)	
	$ 655,085		$ 755,336	

The Corporation recorded depreciation expense of $241,890 in 2006 ($117,473 in 2005).

In 2005, the Corporation abandoned property and equipment with a cost of $81,988 and accumulated depreciation of $61,354, which resulted in a loss of $20,634.

8. OIL AND GAS PROPERTIES

Capital assets, net of accumulated depletion, depreciation and amortization ("DD&A") and impairment, include the following at December 31, 2006:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
Oil and Gas Properties			
Proved properties	$ 63,151,224	$ (54,001,822)	$ 9,149,402
Unproved properties	20,542,690	(13,675,421)	6,867,269
	$ 83,693,914	$ (67,677,243)	$ 16,016,671

Capital assets, net of accumulated depletion, depreciation and amortization ("DD&A") and impairment, include the following at December 31, 2005:

	Cost	Accumulated DD&A And Impairment	Net Capital Assets
Oil and Gas Properties			
Proved properties	$ -	$ -	$ -
Unproved properties	28,570,127	(7,844,088)	20,726,039
	$28,570,127	$(7,844,088)	$20,726,039

KoZhaN

The Corporation is party to three subsoil use contracts for the exploration and development of hydrocarbon reserves in the Atyrau region of Kazakhstan. These subsoil use contracts permit the Corporation to explore for hydrocarbons for a six year period ending 2009 the "Exploration Phase", and then upon the discovery of commercial reserves, enter into a development period of 25 years the "Production Phase".

The Corporation completed the drilling of three wells on the Morskoye field in December 2005 and all three wells tested positive for hydrocarbons. As these were the Corporation' s first wells, these were put on long-term test production to provide the Corporation with the data to make reasonable estimates of potential reserves for the Morskoye field. For the Karatal field, the Corporation re-entered three existing wells previously shut-in that were acquired with the field and spudded a new well as of December 31, 2005. Of the three wells re-entered, two produced only water and were shut in and abandoned and one test well tested positive for hydrocarbons and was also put on long-term test production. As a result of the two wells being shut in and abandoned, the Corporation recorded and impairment charge of $1,693,157 in 2005. The Corporation shot 2-D seismic data for the Dualetaly field in 2005.

In 2006, the Corporation continued its exploration program on all three fields. On the Morskoye field, the Corporation re-entered two exiting wells, one of which tested positive for hydrocarbons. On the Dualetalty field, the Corporation drilled two new wells and re-entered two existing wells. Of these wells on the Dualetaly field, both new wells were plugged and abandoned because of excessive water cut. The re-entered wells both showed oil during limited testing at the end of 2006. The Corporation expects to put these wells on a longer-term test production in 2007. On the Karatal field, the Corporation completed the wells which were started in 2005 and drilled a

new well in 2006. Of the three wells, two were plugged and abandoned due to excessive water cut and the third was awaiting approval of a pilot production plan from the MEMR.

During 2006, the Corporation continued its seismic analysis program, including shooting a 2-D study on the south eastern portion of the Morskoye field and finishing the interpretation of the seismic studies shot in 2005 on the Karatal and Duaetaly field. These costs are included in the Geological and Geophysical expense line on the statement of operations. Total impairments recorded as a result of wells plugged and abandoned in 2006 was approximately $3 million across all three fields.

In June 2006 the MEMR approved the Company' s request to allow for a "pilot development program" for the producing wells on the Morskoye field. This pilot development program allowed the Company to continue test production of its producing wells for up to a two year period without having to enter the production phase of the Contract. At December 31, 2006, the Corporation was still in the exploration phase of its three KoZhaN subsoil use contracts (See Note 28)

Ultimate realization of the carrying value of the Corporation' s oil and gas properties will require production of oil and gas in sufficient quantities and marketing such oil and gas at sufficient prices to provide positive cash flow to the Corporation, which is dependent upon, among other factors, achieving significant production at costs that provide acceptable margins, reasonable levels of taxation from local authorities, and the ability to market the oil and gas produced at or near world prices. In addition, the Corporation must mobilize drilling equipment and personnel, to initiate drilling, completion and production activities. If one or more of the above factors, or other factors, are different than anticipated, the Corporation may not recover its oil and gas properties carrying value.

The Corporation generally has the principal responsibility for arranging financing for the oil and gas properties and ventures in which the Corporation has an interest. There can be no assurance, however, that the Corporation or the entities that are developing the oil and gas properties and ventures will be able to arrange the financing necessary to develop the projects being undertaken or to support the Corporation' s corporate and other activities or that such financing available will be on terms that are attractive or acceptable to or are deemed to be in the best interests of the Corporation, such entities or their respective stockholders or participants.

The consolidated financial statements do not give effect to any additional impairment in the value of the Corporation' s investment in oil and gas properties and ventures or other adjustments that would be necessary if financing cannot be arranged for the development of such properties and ventures or if they are unable to achieve profitable operations. Failure to arrange such financing on reasonable terms or failure of such properties and ventures to achieve profitability would have a material adverse effect on the Corporation' s financial position, including realization of assets, results of operations, cash flows and prospects.

During the first quarter of 2006 the Corporation performed its impairment testing upon determination that the Morskoye field had proven oil reserves. The Corporation retained an outside oil & gas reserve engineering firm to provide it with an estimation of the proved oil reserves for the field and to provide the economic analysis of those reserves. Based on that report, the Corporation determined that its cost associated with the Morskoye field were in excess of the value of the recoverable reserves as of that date and recorded an impairment charge of approximately $46.3 million.

The Corporation has recorded depletion charges of $7,716,822 ($15.40 per barrel) and $0 in the year ended December 31, 2006 and 2005, respectively.

VECTOR

The Corporation is party to two subsoil use contracts for the exploration and development and development of hydrocarbon reserves in the Atyrau region of Kazakhstan. These subsoil use contracts permit the Corporation to explore for hydrocarbons for a six year period ending 2009 the "Exploration Phase", and then upon the discovery of commercial reserves, enter into a development period of 25 years the "Production Phase".

The Corporation shot 2-D and 3-D seismic data for the fields covered by both the Liman-2 and Atyrau subsoil use contracts in 2005.

In 2006 the Company drilled one well on the Atyrau field, which was a dry hole, and recorded an impairment charge of approximately $983,000.

As more fully disclosed in Note 26, in March 2005, the Corporation was notified by the Minister of Energy and Mineral Resources ("MEMR") that it had failed to meet the minimum work program for the Liman-2 field held by VEW and the MEMR had suspended its license rights for a period of 6 months pending review. In November 2005, the MEMR notified the Corporation of the complete termination of the Corporation' s rights and title to the Subsoil Use Contract for the Liman-2 field. Based on this cancellation of the contract rights, the Corporation has fully impaired all of its oil & gas assets and related liabilities with respect to this field.

As more fully disclosed in Note 26, in September 2005, a former officer of its VEW subsidiary fraudulently conveyed its rights and title to the Atyrau Subsoil Use Contract to an unrelated third party. The Corporation has thus far been unable to reverse the fraudulent conveyance of its rights and title to the Subsoil Use Contract and has therefore fully impaired its oil & gas assets and related liabilities with respect to this field.

The Corporation has recorded an impairment charge of approximately $7,844,088 (net of approximately $6,574,000 of liabilities assumed upon the acquisition of the Subsoil Use Contracts) with respect to the loss of contract rights noted above in 2005. In the first quarter of 2006, the Corporation drilled one well on the Atyrau filed.

Total drilling costs incurred of approximately $983,000 were impaired as the well was a dry hole. As a result of the loss of the rights noted above, the Corporation essentially shut down its VEW subsidiary as of the end of the second quarter of 2006.

Unamortized Costs

Oil and gas property costs not being amortized at December 31, 2006, by year that the costs were incurred are as follows:

	Exploration	Acquisition	Total Capital
2006	$ 4,652,239	$ -	$ 4,652,239
2005	577,237	-	577,237
2004	-	1,637,793	1,637,793
Prior	-	-	-
	$ 5,229,476	$ 1,637,793	$ 6,867,269

In accounting for suspended exploratory well costs, the Corporation utilizes Financial Accounting Standards Board Staff Position FAS 19-1 (FSP 19-1), "Accounting for Suspended Well costs." FSP 19-1 amended Statement of Financial Accounting Standards No.19 (FAS 19), "Financial Accounting and Reporting by Oil and Gas Producing Companies," to permit the continued capitalization of exploratory well costs beyond one year after the well is completed if (a) the well found a sufficient quantity of reserves to justify its completion as a producing well and (b) the entity is making sufficient progress assessing the reserves and the economic and operating viability of the project.

In November 2006, the MEMR approved the Corporation' s request to allow for a pilot development program covering the producing wells on the Karatal field. Production restarted on the field in 2007. The Corporation expects to establish proved reserves in 2007 for the Karatal field after sufficient flow testing has been performed. As of December 31, 2006, the Karatal field contained approximately $1.9 million in unevaluated drilling costs and approximately $0.9 million in unevaluated field acquisition costs.

The Corporation continues to evaluate the unevaluated costs for the Dauletaly field and has plans in 2007 to drill new and re-enter a total of three wells, which it believes will allow it establish reserves for the field in 2007.

The following table provides details of the changes in the balance of suspended exploratory well costs as well as an aging summary of those costs.

	2006	2005	2004
Balance as of January 1	$ 12,282,413	$ 1,635,634	$ -
Additions pending determination of proved reserves	10,940,257	18,490,867	1,635,634
Charged to expense	(3,982,353)	(7,844,088)	-
Reclassification to wells, facilities and equipment based on the determination of proved reserves	(14,010,841)	-	-
Other	-	-	-
Ending balance as of December 31	$ 5,229,476	$ 12,282,413	$ 1,635,634

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following amounts are included in accounts payable and accrued liabilities:

	December 31,	
	2006	2005
Trade accounts payable	$ 6,508,304	$ 9,415,517
Professional fees	1,120,848	896,369
Withholding taxes	473,303	-
Tax penalties accrued for (see Note 23)	319,000	-
Other	997,402	643,260
	$9,418,857	$10,955,146

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10. DUE TO ABT, LTD

At December 31, 2006 and 2005, the amount due to ABT consisted of the following:

	December 31,	
	2006	**2005**
Purchase price payable to re-acquire Morskoye 45%farm out	$ 1,219,266	$ -
Construction works incurred by ABT	-	926,582
Payments for drilling works due ABT	-	500,000
	$ 1,219,266	$ 1,426,582

On October 12, 2004, KoZhaN entered into two agreements with ABT Ltd. ("ABT") – an Agreement on partial transfer of the Subsoil Use Right and Agreement No. 1. These two agreements set the terms and conditions of the transfer by KoZhaN of forty-five percent (45%) of its interest in the subsoil use right in the Morskoye oil field (the "Interest"). Pursuant to Agreement No. 1, ABT was to provide consideration for the Interest that consisted of performance of certain construction works and up to 50% of the costs incurred in connection with Well No. 10 in the Morskoye oil field that were not deemed to be associated with the "drilling works" of such well. Also pursuant to Agreement No. 1, ABT agreed to provide a loan of up to $550,000 for the drilling works associated with Well No. 10. This loan was required to be repaid only in the case of discovery of oil and production from the Morskoye oil field. The transfer of the Interest was also subject to approval by the MEMR. The Corporation recorded the amount of $840,423 paid by ABT in performance of the construction works as an amount loaned to the Corporation by ABT. In the event that the transfer of the Interest was approved by the MEMR, this amount would have been converted into an amount received as consideration for the Interest transferred to ABT. The amounts received from ABT toward the drilling works, which as of December 31, 2004 equaled $500,000, had been recorded by the Corporation as a loan, to be repaid from production. In the event that no oil was discovered or produced by the Corporation from the Morskoye oil field, this loan was to be removed from the Corporation' s records as a forgiven loan pursuant to the terms of Agreement No. 1. The Corporation had the obligation to repay the amount of $500,000 to ABT should the farm out agreement not be approved by the MEMR. As of December 31, 2005 the Corporation learned the MEMR would not approve the transfer of the subsoil use rights in satisfaction of the agreements.

As the loans were meant to be converted to cover the purchase price of the 45% interest and was expected to receive MEMR approval very quickly, the Corporation did not discount the value of the advances to fair value. When the Corporation was notified that the MEMR would not approve the transfer, the Corporation entered into negotiations with ABT to re-acquire its subsoil use rights.

Those negotiations were concluded with an agreement signed by both parties on February 7, 2006. The agreement called for the re-acquisition of the 45% interest in the Morskoye filed by the Corporation in exchange for the Corporation issuing to ABT 15 million shares of its common stock plus payment of KZT 1,520,219,282

(approximately 12 million USD) which also satisfied certain outstanding liabilities the Corporation owed to ABT. The purchase price to re-acquire the 45% interest in the Morskoye field has been added to the acquisition cost of the Morskoye field.

The agreement also required that ABT be chosen as primary contractor for all drilling operations on the Morskoye contract area, unless ABT chose not to perform the work as requested by the Corporation.

11. MINORITY BUYOUT PAYABLE

In November 2005, the Corporation entered into an agreement, which was consummated in December 2005, with the 10% minority holders of KoZhaN, LLP to buy their 10% interest which would result in KoZhaN becoming a wholly owned subsidiary of the Corporation. The agreement called for the Corporation to escrow the purchase price of the

buyout, in the amount of $1,275,000, with the Corporation' s law firm, which would disburse the funds at closing, which funds the Corporation transferred to its attorneys in November 2005. At closing in December 2005, the law firm was unable to wire the proceeds into Kazakhstan in satisfaction of the agreement due to restrictions imposed by the banking laws in Kazakhstan. In January 2006 the law firm returned the proceeds to the Corporation, which wired the funds to the 10% holders the following day in satisfaction of the agreement. The Corporation has treated the buyout as completed at December 31, 2005 even though payment was not completed until January 2006.

12. OBLIGATIONS FOR SOCIAL SPHERE DEVELOPMENT

In accordance with the Subsurface Use Contracts, the Corporation has committed to contribute to social sphere development of the Astana and Atyrau cities, in the total amount of $3,030,000, in connection with the three licenses held by KoZhaN during the exploration phase. All Subsurface Use Contracts establish the exploration phase as 6 years from 2003 to 2009, and the production phase as 25 years from 2009 to 2034. These payments are due over the period from 2003 to 2008. During the years ended, December 31, 2006 and 2005, the Corporation made payments of $439,000 and $520,000 respectively.

Payment of these obligations is to be made according to a payment schedule agreed to between the Corporation and the MEMR. The non-current portion of these obligations is recorded at present value using a discount of 15% which is the estimated credit-adjusted risk free discount rate, giving a total discounted obligation of $595,392 and $855,728 at December 31, 2006 and 2005, respectively. The accretion expense for the years ended December 31, 2006 and 2005 was $155,331 and $119,904 respectively.

The Corporation removed the liability for social sphere development for the VEW subsoil use contracts as of December 31, 2005. The Corporation' s obligations under the subsoil use contracts were terminated when the respective contracts were revoked (Liman-2) or conveyed (Atyrau). For a complete discussion, see Note 26.

13. OBLIGATIONS FOR PROFESSIONAL TRAINING OF PERSONNEL

	December 31,	
	2006	**2005**
Within one year	$ 426,900	$ 255,000
In the second to the fifth year inclusive	23,333	46,667
Total obligations	450,233	301,667
Less: discount on obligations on professional training of personnel	(3,043)	(8,734)
Present value of obligations on professional training of personnel	447,190	292,933
Amount due for settlement within one year	426,900	255,000
Amount due for settlement after one year	20,290	37,933
Total	$ 447,190	$ 292,933

Management recognizes obligations on professional training of personnel for future professional training costs as prescribed by the Subsurface Use Contracts. In accordance with the Subsurface Use Contracts, the Corporation is obliged to finance professional training of Kazakhstani personnel recruited for the Subsurface Use

Contract' s operations, at the rate of not less than 1% of the total amount of minimal investments. Under the Subsurface Use Contracts, the total amount of minimal investments was established at $69,000,000.

These obligations at their present value using a discount rate of 15% which is the estimated credit-adjusted risk free discount rate. The accretion expense for the years ended December 31, 2006 and 2005 was $5,690 and $7,991 respectively.

The Corporation had removed the liability for training of personnel for the VEW subsoil use contracts as of December 31, 2005. The Corporation' s obligations under the subsoil use contracts were terminated when the respective contracts were revoked (Liman-2) or conveyed (Atyrau). For a complete discussion, see Note 26.

14. OBLIGATIONS FOR ACQUISITION OF THE RIGHT FOR THE GEOLOGICAL INFORMATION USE

The Corporation removed the liability for the right for geological information use for the VEW subsoil use contracts as of December 31, 2005. The Corporation' s obligations under the subsoil use contracts were terminated when the respective contracts were revoked (Liman-2) or conveyed (Atyrau). For a complete discussion, see Note 26.

15. LONG TERM DEBT

On June 30, 2006, the Corporation closed on an unsecured $15 million Convertible Note Purchase Agreement ("Convertible Note") due June 30, 2008. The Convertible Note bears interest at 6% per annum and has an initial conversion rate of $1.22 per share. The Corporation may prepay the note at any time after giving the Noteholders 30 days written notice after 1 year from issuance and the Corporation' s common stock has traded in excess of 125% of the conversion price for a period of 20 consecutive trading days.

The Noteholders are restricted from converting the notes except in the event that the Corporation elects to redeem the note as described above or the Corporation notifies the Noteholders of a change of control event as defined in the Convertible Note. In addition a further provision required the automatic conversion in the event that Eurasian Financial Industrial Company JSC ("EFIC") should exercise its option to acquire common stock of the Corporation. The agreement with EFIC expired prior to December 31, 2006 with no services having been performed and no compensation paid or shares issued (see Note 16).

The Convertible Note agreement also contains certain covenants which restrict the Corporation from engaging in certain activities while there is more than $3 million in principal outstanding under the Convertible Notes without the written approval of the Convertible Note holders. Those restrictions include paying dividends in cash, but dividends may be issued in the common stock of the Corporation. In addition, the Corporation is restricted in incurring future unsecured indebtedness to $10 million and barred from incurring secured borrowing while principal is outstanding under the Convertible Notes.

On the closing date of the Convertible Note, the Corporation' s common stock closed at $1.25 per share. In accordance with EITF 98-5 "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" the Corporation recorded a beneficial conversion discount in the amount of $368,853. The discount is being amortized to interest expense over the life of the Convertible Note at its effective interest rate of 7.06% .

The Corporation also granted registration rights to the Convertible Note Holders for the shares underlying the conversion feature and also agreed to a penalty provision, in which if the Corporation failed to get current with its filings with the Securities and Exchange Commission, or failed to register the convertible shares in either the London AIM market or the Toronto Stock Exchange before March 31, 2007, the Convertible Noteholders were to receive a warrant to purchase 12,295,082 shares of the Corporation' s common stock, with a term of 2 years from issuance at an exercise price of $1.22 per share, subject to reset (see below). In accordance with the requirements of FSP EITF 00-19-2 the Corporation determined that it was probable as of December 31, 2006 that it would fail to meet the registration requirements of the Convertible Notes and has recorded a registration rights penalty in the amount of $768,499 based on a Black-Scholes valuation of $0.0625 per warrant share using a closing stock price of $0.36 per share, a 0% dividend yield, a risk free interest rate of 4.58%, a volatility of 84.5% and a term of 2 years. The Corporation issued the warrant in April 2007.

The conversion price of the Convertible Note and the exercise price of the penalty warrant are subject to adjustment in the event that the Corporation issues common stock or instruments convertible to common stock of the Corporation at a price below the conversion price of the Convertible Note. Exercise of instruments issued prior to the Convertible

Note, options issued pursuant to the 2000 Long Term Incentive Plan (see Note 17) and any shares issued in a merger, acquisition or reorganization in which the Corporation is the surviving entity are excluded from the reset provision.

16. COMMON STOCK

During 2005 and 2006, the Corporation issued the following shares:

(1) In February and March 2005, the Corporation issued 27,250,000 shares subsequent to a private placement for gross proceeds of $13,625,000. In connection with the offering, the Corporation paid commissions to its investment bankers of $806,096 and issued warrants exercisable into 1,611,000 shares of the Corporation' s common stock at an exercise price of $0.50 per share and exercise terms ranging from 1 to 3 years.

(2) In March 2005, the Corporation issued 1,700,000 shares to four option holders who exercised options previously granted, at an exercise price of $0.05 per common share for proceeds of $85,000.

(3) In April, 2005, the Corporation issued 150,000 shares to an option holder who exercised options previously granted and fully vested at an exercise price of $0.05 per common share for proceeds of $7,500.

(4) In April, 2005, the Corporation issued 856,027 shares under the Alternative Compensation Plan. See Note 19.

(5) In August, 2005, the Corporation issued 2,100,000 shares to an option holder who exercised options previously granted and fully vested at an exercise price of $0.05 per common share for proceeds of $105,000.00

(6) In August 2005, the Corporation completed a $42 million equity offering of its securities. The offering consisted of 15,487,500 shares of its common stock at a selling price $1 per share, 15,487,500 subscription receipts at a selling price of $1 per share, convertible into 15,487,500 shares of common stock and 11,025,000 special warrants at a selling price of $1 per share, exercisable into 11,025,000 shares of common stock. The 15,487,500 subscription receipts and 11,025,000 special warrants were automatically convertible upon the Corporation meeting certain conditions, which included receiving confirmation from the MEMR of the Corporation' s proper title to its subsoil use contracts, and thus the proceeds for these securities, totaling $26,512,500, were held in escrow pending the Corporation meeting those conditions. In September, 2005 the Corporation notified the holders of these securities of the difficulties it was having in receiving confirmation from the MEMR and thus extended to these holders the option to cancel their subscription. Through December 31, 2005, holders compromising 5,750,000 subscription receipts and 6,910,000 special warrants representing $12,660,000 had opted out of the offering and had their funds returned. As of December 31, 2005 the subscription receipt holders, representing $7,487,500 of proceeds agreed to convert their instruments to 7,487,500 shares of common stock in accordance with the original private placement. Those funds were held in the escrow as of December 31, 2005 and were disbursed to the Corporation, along with the issuance of the shares in January 2006. All of the remaining special warrant holders, representing $4,115,000 of proceeds had opted out as of December 31, 2005, but had agreed to leave their funds in the escrow and re-subscribe to the Corporation' s December 2005 private placement. At December 31, 2005 the Corporation had signed subscription agreements covering $3,900,000 of the special warrant holders. The last special warrant holder, representing $215,000 signed the subscription agreement in January 2006. In connection with the transaction, the Corporation incurred investment banking fees, commissions and expenses consisting of 2,520,000 fully vested warrants exercisable for $1 per share and with a term of 3 years and cash of $2,762,368.

(7) In September, 2005, the Corporation issued 50,000 shares of common stock to an option holder who exercised options previously granted and fully vested at an exercise price of $0.56 per common share for proceeds of $28,000.

(8) In November, 2005, the Corporation issued 1,050,000 shares of common stock to six option holders who exercised options previously granted and fully vested at an exercise price of $0.15 generating proceeds of $45,000 and $0.05 for proceeds of $37,500.

(9) In December, 2005, 5,000 shares were issued for services valued at $6,500.

(10) In December 2005 the Corporation commenced a private placement offering of its common stock for $1 per share in which it raised gross proceeds of $14,665,745 through the issuance of 14,665,745 shares of its common stock. The Corporation paid investment banking fees of $618,340 in connection with the offering.

(11) During 2005, the Corporation received proceeds of $392,733 from the exercise of warrants into 785,465 shares of common stock.

(12) In January 2006, the Corporation completed its private placement offering started in December 2005 through the issuance of 850,000 shares of its common stock for proceeds of $850,000.

(13) In 2006, the Corporation received proceeds of $142,500 from the exercise of 1,050,000 options issued under the 2000 Stock Option Plan.

(14) In the first quarter of 2006, the Corporation issued 26,555 shares of its common stock and recorded $139,740 of compensation for consulting services rendered.

(15) On February 7, 2006, the Corporation entered into an agreement to re-purchase the 45% interest it has farmed out of the Morskoye production sharing agreement to ABT Ltd. As compensation, the Corporation issued ABT

Ltd. 15,000,000 shares of its common stock. Those shares were valued at the closing price per share on that day of $2.27 per share for a total value of $34,050,000.

(16) In the second quarter of 2006, the Corporation issued 60,000 shares of its common stock for investor relation and solicitation services. The shares were valued at $1.49 per share for total compensation of $89,400.

(17) In the third and fourth quarters of 2006, the Corporation issued 5,050,000 shares of its common stock in satisfaction of registration rights penalties (see discussion below).

On March 1, 2006, the Corporation held its annual general meeting of shareholders. At the meeting the shareholders agreed to increase the authorized share capital of the Corporation to 350,000,000 shares.

The 2004 and February/March 2005 private placements were subject to registration rights agreements in which the Corporation agreed to file and have become effective a registration statement covering those shares within 60 days of closing the private placements. Failure to have a registration agreement become effective within that time frame triggered a penalty ranging from 0.1 to 0.2 shares for each share sold in the private placement. The proceeds raised by private placements prior to November 2004 were registered successfully in October 2004 and thus met the requirements of the registration rights agreements for those issuances. The Corporation failed to file a timely registration statement covering the November 2004 private placement and all of the February/March 2005 private placements. Because of the limited number of shares available, the Corporation was unable to issue the penalty shares payable as of December 31, 2005 and under the requirements of EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’ s Own Stock” has recorded a registration rights penalty payable of $11,435,300 as the value of 6,610,000 penalty shares issuable as of December 31, 2005. Upon the Corporation authorized shares increase in March 2006, the Corporation revalued the liability at the closing stock price on March 1, 2006 of $12,928,500. The increase was recorded as a registration rights penalty in 2006. At December 31, 2006, 1,580,000 penalty shares remained issuable of which 120,000 shares were issued in January 2007.

The August 2005 private placement was subject to a registration statement that required the Corporation to use its best efforts to have a registration statement filed within 30 days of closing and declared effective no later than 120 days from closing. The registration rights agreement did not contain any penalties or other liquidating damages clause for failure to file or maintain an effective registration statement.

The December 2005/January 2006 private placements were subject to registration rights agreements, substantially in the same form as the 2004 and February/March 2005 private placements. On January 1, 2006, the Corporation

adopted FSP EITF 00-19-2 “Accounting for Registration Payment Arrangements” and determined that on March 31, 2006, it was probable that penalty shares would be issuable for failure to meet the requirements of the private placements regarding registering the underlying shares. Per the guidance in FSP EITF 00-19-2, the Corporation has recorded a penalty of $2,323,149 for 1,161,575 penalty shares issuable. In January 2007, 1,108,075 shares were issued.

In June 2006, the Corporation entered into a Services Agreement with EFIC in which EFIC agreed to assist the Corporation in its efforts to regain control of the production sharing contracts once held by VEW. The Services Agreement had a term of six months. In the event that EFIC was successful in those six months in returning clear title to those production sharing contracts to the Corporation, it was entitled to receive an option grant to acquire up to 25 million shares of common stock of the Corporation and also to receive either (a) a 50% interest in the returned production sharing contract upon approval by the MEMR of the transfer (only a 25% interest for the Alakol block) or (b) upon a fair valuation of the probable reserves of the production sharing contract by an approved oil field engineering firm the fair value of 50% of those probable reserves to be satisfied through the issuance of the common stock of the Corporation. In December 2006, the Corporation notified EFIC of their failure to return clear title to any of the production sharing contracts to the Corporation and the cancellation of the Services Agreement. No compensation was paid to EFIC as a result. Under the guidance of EITF 96-18 “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” no compensation expense has been recorded in these financial statements as no measurement date occurred.

17. STOCK OPTION PLAN

The Board of Directors of the Corporation adopted the 2000 Stock Option Plan (the "Plan") during April 2000. Shareholders approved the Plan on June 29, 2001. On December 3, 2004 the shareholders approved an increase in the common shares reserved for the option plan to 15,000,000. Under the Plan, the Corporation had reserved 15,000,000 common shares for issuance under options granted to eligible persons. As at December 31, 2005, 13,700,000 had been granted and were outstanding with an additional 7,000,000 granted but not outstanding as the awards were contingent upon the shareholders approving an increase in the shares available under the Plan which had not occurred as of December 31, 2005 (see below).

On March 1, 2006, the Corporation received an affirmative vote of 65% of the shareholders of record as of January 13, 2006 to amend the Plan to permit no greater than 20% of the issued and outstanding shares of the Corporation, at the date of grant, to be allocated to options under the Plan.

In July 2006, the board of directors authorized the re-pricing of all options issued under the plan as of that date with exercise prices in excess of $1.00 per share to be reset to $1.00 per share. The total number of option shares re-priced was 5,600,000. Under the guidance of FAS 123 (revised) the Corporation calculated the change in fair value of the rest options immediately after and compare to the fair value immediately before the change and is amortizing the incremental additional fair value calculated of approximately $413,000 over the remaining vesting periods of those options.

Under the Plan, options to purchase common shares may be granted to employees, directors and certain consultants at prices determined by the board of directors, however not less than the fair market value at the date of grant for incentive stock options and not less than 110% of fair market value for incentive stock options where the employee who, at the time of grant, owns stock representing more than 10% of the total combined voting power of all classes of stock of the Corporation. These stock options expire three to five years from the date of grant and may be fully exercisable immediately, or may be exercisable according to a schedule or conditions specified by the Board of Directors.

The fair value of stock options issued to consultants was estimated at the grant date by use of the Black-Scholes option pricing model with the following assumptions for the years ended December 31:

	2006	2005
Dividend Yield	0%	0%
Expected Volatility	81%	155%
Risk free rate	4.84%	3.68%
Expected life	5 years	5 years
Vesting Period	Immediate	3 years

A summary of the status of stock options granted under the Plan are as follows:

	Shares Issuable Under Outstanding Option	Weighted Average Exercise Price	
Opening Balance - January 1, 2005	6,175,000	$ 0.08	
Granted	13,300,000	0.71	
Expired	-	-	
Exercised	(5,050,000)	0.06	
Cancelled	(725,000)	0.59	
Balance, December 31, 2005	13,700,000	0.69	
Granted	11,150,000	0.96	*
Expired	-	-	
Exercised	(1,050,000)	0.14	
Cancelled	(6,240,000)	0.91	*
Balance, December 31, 2006	17,560,000	$ 0.77	*

* The price per share reflects the re-pricing event from July 2006 (see above)

The weighted average fair value of options granted during the year was $1.33 and $0.92 for the years ended December 31, 2006 and 2005 respectively.

The number and weighted average grant-date fair value of non-vested options as at January 1, 2006 was 9,704,166 and $0.93 respectively. The number and weighted average grant-fair value of options vested during 2006 was 11,428,646 and $1.20 respectively. The number and weighted average grant- date fair value of non-vested options as at December 31, 2006 was 8,062,186 and $0.96 respectively.

Total compensation cost recorded was $16,349,373 and $2,258,829 during 2006 and 2005, respectively.

The total intrinsic value of options exercised during each of the year ended December 31, 2006 was $1,224,000.

As of December 31, 2006, total compensation cost related to non-vested options not yet recognized is approximately $4,826,000 and this cost will be recognized over a weighted average period of 23 months.

We received cash proceeds of $142,500 from the exercise of options during the year ended December 31, 2006.

The following table summarizes information about stock options outstanding as of December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining Term (months)	Weighted Average Exercise Price	Number of Shares Exercisable at December 31, 2006	Weighted Average Exercise Price
$0.05 to $0.50	7,850,000	14	$ 0.49	3,332,814	$ 0.49
$0.51 to $1.00	9,710,000	28	$ 1.00	6,165,000	$ 1.00
	17,560,000	22	$ 0.77	9,497,814	$ 0.82

The following table summarizes additional information about stock options outstanding at December 31, 2006:

	Options Outstanding		Options Exercisable
Range of Exercise Prices	Aggregate Intrinsic Value of Shares Outstanding at December 31, 2006		Aggregate Intrinsic Value of Shares Exercisable at December 31, 2006
$0.05 to $0.50	$ 2,007,500		$ 878,204
$0.51 to $1.00		9,500	9,500
	$ 2,017,000		$ 887,704

18. WARRANTS

The Corporation has previously issued the following warrants. Each warrant can be exchanged for 1 common share at the exercise price noted.

Date of Grant	Number of Warrants	Exercise Price	Expiration Date
May 2004	17,250	$0.50	May 2007
March 2005	111,000	$0.50	December 2008
April 2005	480,000	$0.50	February 2008
August 2005	2,520,000	$1.00	August 2008
	3,128,250		

All warrants issued in 2005 were issued as compensation to investment bankers who assisted the Corporation in raising funds in its private placements in 2005.

No warrants were issued in 2006.

19. ALTERNATIVE COMPENSATION PLAN

On March 22, 2002, the Board of Directors approved the Alternative Compensation Plan to provide opportunities for officers, directors, employees and contractors to receive all or a portion of their compensation in the form of common shares instead of cash. The Alternative Compensation Plan was approved at the Annual Shareholders' Meeting held on June 14, 2002. The Plan allowed for maximum compensation of 2,000,000 shares. This maximum was reached in the third quarter of 2002 and an expense in the amount of $163,463, relating to the future issuance of 2,000,000 common shares, was accrued under the Alternative Compensation Plan in 2002. Shares are issued upon request of the beneficiaries and no further compensation cost is recorded at that time. 856,027 shares were issued during 2005, leaving 461,171 shares remaining to be issued at December 31, 2005. In August of 2006, the last remaining 461,171 shares in the plan were issued.

20. RELATED PARTY TRANSACTIONS

On December 31, 2005, the Corporation owed $90,546 to Matthew Heysel, our Executive Chairman arising from having personally paid for travel expenditures while traveling on the business of the Corporation. The balance at December 31, 2005 was paid to Mr. Heysel in January 2006.

The Corporation had been unable to establish a bank account in Beijing, China. Each month, the Corporation would transfer funds to Kai Yang, the brother of our President at the time, Daming Yang, and a consultant to Big Sky Network, LTD, a former subsidiary of the Corporation, who is resident in Beijing, to cover the costs of maintaining

an office in Beijing. During 2005, the Corporation advanced $485,000 (2004 - $385,689) to Kai Yang, who disbursed the full amount for salaries, office rental, professional fees, travel, and other administration expenses of the Corporation. A further $360,000 was advanced to close the Beijing office.

Big Sky Energy Canada Ltd.

At January 12, 2004, the time of the acquisition of BSEK, Matthew Heysel and Daming Yang were directors and officers of Big Sky Energy Canada Ltd. and the Corporation and Mr. Kai Yang, the brother of Daming Yang, held all the outstanding shares of Big Sky Energy Canada Ltd. As at December 31, 2004, Matthew Heysel and Daming Yang were no longer directors nor officers of Big Sky Energy Canada Ltd. On March 10, 2004, Daming Yang' s brother, Wei Yang, was appointed to the board and was given full voting and dispositive control over all shares held by Big Sky Energy Canada Ltd. The loan arose from costs totaling $300,000 that were incurred by Big Sky Energy Canada Ltd. in connection with completing BSEK' s acquisition of KoZhaN, and a payment of $50,000 to Bolat Mukashev, the President of KoZhaN, as a reimbursement of costs incurred by the President on behalf of KoZhaN. The amount of $350,000 was treated as consideration in the allocation of the purchase price of the assets and liabilities of KoZhaN. The loan is unsecured, bears no interest and is repayable on demand. A balance of approximately $21,351 was outstanding at December 31, 2004. In 2005 the Corporation fully reserved for the amount owed as it deemed the receivable uncollectible.

Big Sky Holdings Ltd.

Matthew Heysel controls Big Sky Holdings Ltd. A loan to the Corporation by Big Sky Holdings, LTD arose from a cash transfer to BSEK to cover expenses incurred by BSEK. The loan is unsecured, bears no interest and is repayable on demand. A balance of $25,565 was outstanding at December 31, 2006 and 2005.

21. OBLIGATIONS FOR HISTORICAL COST REIMBURSEMENT

The Corporation, through its purchase of VEW, was obligated to reimburse the Republic of Kazakhstan $7,784,034, for historical costs incurred in respect of the Liman-2 oilfield, pursuant to the terms of the Subsurface Use Contract # 1076 dated December 28, 2002 and the Agreement on acquisition of the right on the Geological Information Use # 711, dated January 21, 2002. Payment of these obligations was to be made according to a payment schedule agreed between VEW and MEMR. These payments were due from 2012 to 2027 and were to be paid quarterly in equal installments.

The Corporation has removed the liability for the reimbursement of historical costs for the VEW subsoil use contracts as of December 31, 2005. The Corporation' s obligations under the subsoil use contracts were terminated when the respective contracts were revoked (Liman-2) or conveyed (Atyrau). For a complete discussion, see Note 26.

22. ASSET RETIREMENT OBLIGATION

Management determined that an asset retirement obligation should be recognized for future abandonment costs of 93 legacy wells in Morskoye, Liman -2 and Atyrau fields before the Corporation signed the Subsurface Use Contracts, but which, in management' s opinion, were not properly abandoned. Management believes that this obligation is likely to be settled at the end of the exploration phase.

As at December 31, 2006, future cash flows required to satisfy the Corporation' s liability by 2009 and 2028 for the KoZhaN fields are estimated at $740,000. After application of a 15% credit- adjusted risk free discount rate, the present value of the Corporation' s liability at December 31, 2006 is approximately $560,000. During the year ended December 31, 2006 and 2005, the Corporation recorded accretion expense of approximately $ 63,000 and $55,000 respectively.

	2006	2005
Balance, January 1	$ 402,355	$ 435,868
New obligations incurred during year	94,069	324,586
Liabilities settled during year	-	(413,007)

Accretion expense	63,122		54,888
Revisions in estimates, including timing	-		-
Balance, December 31	$ 559,546	$ 402,335	

The Corporation has removed the liability for asset retirement obligations for the VEW subsoil use contracts as of December 31, 2005. The Corporation' s obligations under the subsoil use contracts were terminated when the respective contracts were revoked (Liman-2) or conveyed (Atyrau). The Corporation did not drill any new wells on these fields during 2005. For a complete discussion, see Note 26.

23. INCOME TAXES

The Corporation did not provide any current or deferred U.S. federal or foreign income tax provision or benefit because it has experienced operating losses since inception. The Corporation is not liable for any state taxes.

	2006	2005
Loss before income taxes	$ (102,721,382)	$ (44,663,778)
US composite statutory income tax rate	35%	35%
Expected income tax recovery	(35,952,484)	(15,632,322)
Tax benefit not recognized	(35,952,484)	15,632,322
Foreign taxes	808,450	-
Income tax expense (recovery)	$ 808,450	$ -

Deferred taxation reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for statutory tax purposes in the respective countries.

The deferred income tax liability is comprised of the following:

	December 31,	
	2006	**2005**
Temporary differences		
Beneficial Conversion Discount	$ 277,000	$ -
Oil and gas property values	-	5,282,800
Total temporary differences	277,000	5,282,800
Statutory tax rate	35%	35%
Total	97,000	1,848,980
Current portion	-	-
Non-current portion	97,000	1,848,980
Total	$ 97,000	$ 1,848,980

At December 31, 2006, the Corporation had estimated net operating loss carryovers of approximately $27,290,000 for U.S. federal income tax purposes. These amounts are estimates as the Corporation has failed to file a US income tax return since the 2000 tax year. The Corporation, due to its failure to file its 2001 through 2006 US income tax returns on a timely basis, has subjected itself to possible penalties and interest for failure to timely file its corporate income tax returns and information returns associated with its foreign bank accounts and foreign subsidiaries. Such penalties may include $100,000 for each willful failure to file a corporate income tax return and $10,000 per foreign subsidiary return not timely filed for each tax year. In addition, the failure to timely file those information returns could result in the Internal Revenue Service disallowing up to 10% of foreign taxes paid as a credit against US income taxes. In addition, the Corporation is subject to fines of up to $100,000 for each foreign bank account for which an information return is not timely filed for each tax year. In 2006 and 2005, the Corporation had four foreign subsidiaries and 16 foreign bank accounts subject to possible penalties and interest for failure to timely file applicable returns. Utilization of the net operating losses, which expire on various dates starting in 2007, will be subject to certain limitations under Section 382 of the Internal Revenue Code of 1986, as amended. Due to the uncertainty of utilizing these net operating losses, the Corporation has fully reserved for its deferred tax assets as of December 31, 2006 and 2005.

In January 2008, the Corporation received the results of its comprehensive tax audit within Kazakhstan for the years 2005, 2006 and 2007. As a result of that audit, the Corporation has accrued additional corporate income and value added taxes in the amounts of $808,450 and $1,261,000 through December 31, 2006, respectively. In addition, it has accrued penalties for underpayment of corporate income taxes of approximately $180,000 and an additional $139,000 for the underpayment of value added taxes through December 31, 2006. In both instances, the failure to properly document the expenses of the Corporation, led the taxing authority to disallow significant deductions previously taken.

	December 31,	
	2006	**2005**
Net operating loss carry forward balance	$ 27,290,000	$ 22,090,000
Composite statutory tax rate	35%	35%
Deferred tax asset	9,551,500	7,731,500
Valuation allowance	(9,551,500)	(7,731,500)
	$ -	$ -

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2006, the fair value, the related method of determining fair value and carrying value of the Corporation' s financial instruments were as follows: the fair value of current assets and current liabilities approximates their carrying amounts due to the short-term maturity of these instruments. The Corporation has discounted its long term liabilities associated with its subsoil use contracts using its estimated weighted average cost of capital. The carrying value of $14,722,522 of long-term debt reflects discounts for the value of the associated beneficial conversion feature, net of amortization, of $91,375. The face amount of long-term debt outstanding as of December 31, 2006 was $15,000,000. The Corporation is exposed to market, credit and currency risks arising in the normal course of the Corporation' s business. Derivative financial instruments are not used to reduce exposure to the above risks.

Concentration of credit risk- Financial instruments that potentially expose the Corporation to concentrations of credit risk consist primarily of cash and cash equivalent. Management of the Corporation believes the likelihood of incurring material losses due to concentration of credit risk is remote.

Interest rate risk- The Corporations potential interest rate risk is minimal and management considers the risk insignificant.

Foreign currency risk- The Corporation undertakes transactions denominated in foreign currencies. Accordingly, these activities may result in foreign currency exposure. The currency fluctuations subsequent to the year end were 12% decrease to July and an increase of 7% to September for a net decrease of 5%. The Corporation does not hedge its foreign currency risk.

Geographic / Geopolitical

The Corporation has a large concentration of its assets in Kazakhstan.

Assets in North America	$ 8,746,851
Assets in Kazakhstan	$ 6,021,376
Total Assets	$ 14,768,227

25. COMMITMENTS AND CONTINGENCIES

Operating environment- The Corporation's operations may also be adversely affected by significant political, economic and social uncertainties in Kazakhstan and in other countries in which it may acquire oil and gas operations. These factors may impact the Corporation' s ability to conduct its business, the results of its operations and its financial condition and its right to pay dividends. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and KoZhaN' s assets and operations could be at risk due to negative changes in the political and business environment.

Taxation- The taxation system in the Republic of Kazakhstan is constantly changing and subject to inconsistent application, interpretation and enforcement. There have been many new tax and foreign currency laws and related regulations introduced in recent years, which are not always clearly written and whose interpretation and application is subject to the opinions of the local tax authorities. Non-compliance with Kazakhstan laws and regulations can potentially lead to the imposition of penalties and fines, the amounts of which can be significant.

Environmental matters- The Corporation believes it is currently in compliance with all existing Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Corporation is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require KoZhaN to modernize technology to meet more stringent standards.

Financial Commitments and Contingencies - KoZhaN

The Corporation, through its interest in KoZhaN, has the following commitments and contingencies. As these commitments and contingencies are subject to the commencement of commercial production and the Corporation cannot determine at this time when it will commence commercial oil and gas production operations, the likelihood of payment of the following commitments and contingencies is currently indeterminable. Consequently no amounts have been recorded as provisions in these financial statements for the following commitments and contingencies:

a) ***Commitment to repay historical costs of the MEMR*** -In accordance with the Subsurface Use Contracts the Corporation is obliged to reimburse the MEMR for historical costs incurred during preparation of certain geological information on the Morskoye, Karatal and Dauletaly oilfields.

The total amount reimbursable is $3,756,422. Of this amount, $116,178 was paid in 2002-2003. The remaining amount of $3,640,244 is expected to be settled by equal quarterly installments during 20 years after the Corporation enters into the production phase on these oilfields. If commercial production does not commence, no further payments become due in this respect.

b) ***Commitments to contribute to social development of Astana and Atyrau*** -In accordance with the KoZhaN Subsurface Use Contracts, the Corporation is obliged to contribute $850,000 during the production phase for the development of the social sector of Atyrau and Astana cities in Kazakhstan. See Note 12.

c) ***Commitment to develop local personnel***-In accordance with the Subsurface Use Contracts, the Corporation is obliged to invest not less than 1% of total investments for professional development of the local personnel involved in works under the Subsurface Use Contracts. See Note 13.

d) ***Liquidation fund***- In accordance with the Subsurface Use Contracts, the Corporation is obliged to establish a liquidation fund to finance the adequate disposal of the Corporation' s oil and gas operations in the amount of 1% of operating costs. The Corporation is also obliged to apply for approval of this fund with the MEMR under the contracts, including budget of disposal costs, no later than 2 years before the end of the exploration phase and start of the production phase. Although the Corporation has not yet carried out major exploration activities to date, the Corporation has recorded an asset retirement obligation for wells acquired plus new wells drilled in 2005 in these financial statements. Upon achieving an agreement with the MEMR, this asset retirement obligation may be considered as part of the contractually required liquidation fund. See Note 22.

Upon awarding a new tender for subsurface use rights, KoZhaN shall pay a $0.05 bonus based on total oilfield reserves, as defined in the State Balance of Reserves (Oil) of Kazakhstan as of January 1, 2000, equivalent to proven recoverable reserves.

e) ***Contingencies related to purchase of geological information from the MEMR*** -In accordance with the Purchase Agreements concluded with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan on July 10, 2002, the Corporation may incur a penalty for delaying payment for the geological information purchases from the MEMR relating to the Morskoye, Karatal and Dauletaly oilfields at a rate of 10% per annum. Payments for the geological information purchase for the Karatal and Dauletaly oilfields were made by the Corporation with a significant delay. Management believes that the obligation for the penalty is not probable and thus no provision has been recognized in the financial statements for this amount. In accordance with the Agreements on Acquisition of the Right on the Geological Information use # 710 and # 711 dated January 21, 2002, the Corporation is obliged to pay an additional amount for the right of geological information use if KoZhaN attracts foreign investors.

f) ***Commitment to make payments based on production*** -Arising from BSEK' s acquisition of KoZhaN interest (See Note 1), the Corporation is committed to make the following payments to the non- controlling partners of KoZhaN, as a group, upon achieving the following production milestones, where production is calculated after deducting the government' s share of production, if any, and where one tonne equals seven barrels of oil:

· $100,000 after the receipt by KoZhaN of payment in full for two sales of a commercial quantity of oil produced, saved, marketed and sold by KoZhaN. Each sale shall not be less than 4,000 tonnes of oil;

· $300,000 after the receipt by KoZhaN of payment in full for a cumulative production of 40,000 tonnes of a commercial quantity of oil produced, saved, marketed and sold by KoZhaN;

· $400,000 after the receipt by KoZhaN of payment in full for a cumulative production of 150,000 tonnes of a commercial quantity of oil produced, saved, marketed and sold by KoZhaN;

· $500,000 after the receipt by KoZhaN of payment in full for a cumulative production of 250,000 tonnes of a commercial quantity of oil produced, saved, marketed and sold by KoZhaN;

- $0.35 per barrel if the price of oil is equal to or less than $14.00;
- $0.75 per barrel if the price of oil is greater than $14.00 and less than or equal to $18.00;
- $1.00 per barrel if the price of oil is greater than $18.00 and less than or equal to $22.00; or
- $1.50 per barrel if the price of oil is greater than $22.00

During 2006 the oil wells in production within the three production sharing contracts held by KoZhaN produced approximately 502,000 barrels (77,000 tonnes) of oil during 2006 at an average selling price of approximately $14.66

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per barrel, net of transportation costs. Under the agreement, the Corporation has accrued a liability for $400,000 in meeting the first two tonnage milestones and these costs have been added to the balance in oil and gas properties. In addition, the Corporation has accrued a liability of approximately $360,000 under the royalty portion of the contract and as such, these costs have been treated as a reduction in revenue.

g) ***Investment commitments*** -In accordance with the Subsurface Use Contracts KoZhaN is obliged to invest a minimum of $69,000,000 over the period covered by the Subsurface Use Contracts. An amount of $14,000,000 was committed to be invested during the exploration phase with the remaining $55,000,000 committed for the production phase of the subsoil use contracts. All three Subsurface Use Contracts establish the exploration phase as 6 years from 2003 to 2009, and the production phase as 25 years from 2009 to 2034. The MEMR' s objective in setting minimum work commitments is to ensure certain types of exploratory work is carried out by the license holder, including drilling new wells and seismic activity. The MEMR will measure the degree to which the Corporation has met its commitments in terms of work completed on a yearly basis.

The MEMR estimates the work commitment in terms of expected spending amounts. The MEMR measures the performance of the Corporation towards meeting its work commitment by evaluating the actual work performed in comparison with the agreed requirements. Actual spending is not a performance measure.

h) ***Commercial discovery bonus*** -In accordance with the Subsurface Use Contracts, the Corporation is obliged to pay to the MEMR a commercial discovery bonus in the amount of 0.1% of the value of proved reserves using the market price of the hydrocarbons. This amount is due within 30 days after the hydrocarbon reserves are approved by the State Committee on Reserves of the Republic of Kazakhstan. In 2006 the Corporation accrued a bonus of approximately $473,000 for commercial reserves discovered for the Morskoye field. The method used to develop the proved reserve amount in calculating the amount of the bonus is not the method required to be used in US GAAP financial statements.

i) ***Royalties payable to the State*** -In accordance with the subsoil use contracts, the Corporation is obliged to pay royalties to the state ranging from 5% to 13% based on production of oil. During 2006 the Corporation paid royalties of approximately $759,000 which were recorded as offsets to oil revenues.

j) ***Property Taxes payable to the State*** -In accordance with the subsoil use contracts, the Corporation is obliged to pay property taxes in the amount of 1% of certain expenses as specified under the production sharing contracts per annum.

Other Contingencies

a) ***Non-compliance with the Subsurface Use Contracts*** -The MEMR has the right to suspend these contracts or even cancel them if the Corporation is in material breach of obligations and commitments under the Subsurface Use Contracts.

In accordance with the Subsurface Use Contracts signed on February 17, 2003, the Corporation was obliged to commence exploration activities within 60 days after signing the Contracts.

b) ***Commitment to sell produced oil in Kazakhstan*** -In accordance with the Subsurface Use Contracts, the Corporation is obliged to sell 100% of oil produced during the exploration stage, and depending on the contract between 20% to 50% of oil produced during the production stage (see Note 28), to oil refineries located in Kazakhstan. The Corporation is able to sell at world market prices (less standard discounts) for oil sold for export, but typically receives only 25 to 35% of the world market price for oil sales made to local refiners in Kazakhstan.

c) ***Obligation to return non-productive areas covered by Subsoil Use Contracts*** -Upon exiting the exploration phase of the Subsoil Use Contracts, the Corporation and the MEMR will agree to an area that the Corporation will return to develop during the production phase of the Contracts. All area outside of the area agreed to will be returned to the state at that time.

d) ***Commitment to Reimburse Historical Costs of the MEMR*** - In February 2006, and later amended in

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December 2006, the Corporation and the MEMR agreed to amend the three production sharing contracts held by KoZhaN. The amendment calls for the Corporation to reimburse the MEMR for the historical costs incurred on the three fields upon the Corporation entering the production phase of the production sharing contracts. The amounts of $1,385,238 (KZT 175,925,226), $5,743,690 (KZT 729,448,630) and $1,057,290 (KZT 134,275,830) are payable in equal quarterly installments over a 20 year period after commencement of the production phase of the Dauletaly, Morskoye and Karatal contracts, respectively.

Financial Commitments and Contingencies – Vector Energy West

In 2005 the Company lost both licenses it held under Vector Energy West and therefore no contingent liabilities have been recorded or disclosed in connection with its previous subsoil use contracts.

PROVISION FOR LOSS CONTINGENCY

There are times when non-recurring events occur that require management to consider when an accrual for a loss contingency is appropriate and they typically relate to legal proceedings and other claims and litigation. The Corporation analyzes its legal proceedings and other claims based on available information to assess potential liability. The Corporation develops its views on estimated losses in consultation with outside counsel handling its defense in these matters, which involves an analysis of potential results assuming a combination of litigation and settlement strategies. Based on the forgoing and the outcome of recent court decisions (See Note 26) concerning our ownership interest in KoZhaN, LLP, the Corporation has accrued a provision of approximately $5,175,000 under the guidance provided by SFAS 5 "Accounting for Contingencies".

26. LEGAL PROCEEDINGS

Atyrau Block

Proceedings Against Ligostrade Services and Shakirov

On or about September 30, 2005, VEW' s former in-house lawyer / employee, Mr. Farkhad K. Shakirov, transferred and assigned VEW' s subsoil use rights arising in relation to the Atyrau Block to a newly formed shell Corporation called Ligostrade Services LLP. The Corporation contends that Mr. Shakirov had neither the authority to effect such transfer nor was such transfer approved by the Corporation' s Board of Directors or any member of management.

On November 17, 2005, VEW and BSEA commenced legal proceedings in the Almaty City Court against Ligostrade and Mr. Shakirov requesting that the court recognize the Assignment Agreement signed by Mr. Shakirov on behalf of VEW and Ligostrade dated on or about September 30, 2005, as well as Amendment Agreement No. 1 to such Assignment Agreement as invalid. On November 22, 2005, VEW and BSEA obtained an injunction preventing Ligostrade, Mr. Shakirov and the MEMR from seeking to register VEW' s rights to the Atyrau block in the name of Ligostrade Services LLP. This injunction was later lifted by the Almaty City Court on February 3, 2006. This case was dismissed by the court without consideration. VEW' s and BSEA' s appeals of the court dismissal and the lifting of the injunction to various courts of appeals have all been rejected. VEW and BSEA have also attempted to commence proceedings in other the Almaty Inter-District Specialized Economic Court against Ligostrade and Mr. Shakirov without any success.

While a further level of appeal to the Supervision Collegium of the Astana City Court was available to the Corporation, the Board of Directors, upon receipt of counsel from both legal and in-country advisors, took the considered decision that it was counter to the best interests of the Corporation to continue with this matter.

The Company fully impaired the oil and gas assets related to this matter in 2005 (see Note 8).

Proceedings Against MEMR

On January 30, 2006, VEW and BSEA commenced proceedings in the Astana Specialized Inter-District Economic Court against MEMR contending that its transfer of VEW' s subsoil rights from the Atyrau Block to Ligostrade was illegal. As a result, on March 13, 2006, the court issued a ruling that invalidated such transfer.

On March 15, 2006, this ruling was appealed by MEMR and Ligostrade, and on April 4, 2006, the Astana City Court issued a new decision cancelling the Specialized Inter-District Economic Court' s decision.

While a further level of appeal to the Supervision Collegium of the Astana City Court was available to the Corporation, the Board of Directors, upon receipt of counsel from both legal and in-country advisors, took the considered decision that it was counter to the best interests of the Corporation to continue with this matter.

Liman-2 Block

On March 23, 2006, VEW received a letter from MEMR to notify it that its subsoil use rights in relation to the Liman-2 Block, pursuant to Contract No. 1076, had been suspended for a six months due to claims regarding the implementation and fulfillment of the minimum works program. By letter dated October 7, 2005, MEMR cancelled Vector' s subsoil use rights arising in relation to the Liman-2 Block.

VEW received a letter dated April 11, 2006, from MEMR, confirming termination of the Liman-2 subsoil use contract as of October 5, 2005, for alleged inadequate performance of the minimum Work Program commitments.

While a further level of appeal to the Supervision Collegium of the Astana City Court was available to the Corporation, the Board of Directors, upon receipt of counsel from both legal and in-country advisors, took the considered decision that it was counter to the best interests of the Corporation to continue with this matter.

The Company fully impaired the oil and gas assets related to this matter in 2005 (see Note 8).

Claim by Spouses of former Partners in KoZhaN

In August, 2006 the Corporation was advised that spouses of four of the five former participants of KoZhaN (jointly referred to as the "**Plaintiffs**") had filed Statements of Claims against BSEK, the Almaty Department of Justice, Notary Kanadanova, and four of the five former participants of KoZhaN (jointly referred to as the "**Defendants**") seeking to invalidate: (i) the 2003 SPA, and (ii) the re-registration of KoZhaN by BSEK.

The former participants of KoZhaN are:

Mukashev Bolat Raimkanovich;

Kachapov Garifolla Sapayevich;

Baikenov Kadyr Karkabatovich;

Asanova Turgan Nurtaevna;

Faskhutdinov Ruslan Rakhimzhanovich,

The Plaintiffs alleged that they had not consented to the sale of the participatory interests under the 2003 SPA, and that their spousal consents were needed for a disposal of what they considered to be "marital property". On September 13, 2006, the trial court issued a Resolution bringing KoZhaN into the proceedings as a non-party intervener on the part of Defendants. Kazakh counsel, McLeod Dixon, advised as a matter of Kazakhstan law, consent of a spouse to a transaction relating to a disposal of the marital property entered by the other spouse, is *presumed*. In addition, no formal spousal consent was required for the 2003 SPA because the transaction did not trigger mandatory notarization or registration with state authorities.

October 17, 2006. The Plaintiffs filed additional claims seeking to invalidate three powers of attorney of August 8, 2003 and August 9, 2003, under which three of the former participants of KoZhaN authorized Mr Bolat Mukashev, another former participant of KoZhaN, to execute the 2003 SPA on their behalf (the "**Powers of Attorney**"). Plaintiffs also requested the Court to bring into the proceedings, as a co-defendant, Ms. Batkalova who notarized the Powers of Attorney.

October 31, 2006, the Court held a meeting with attorneys for the Plaintiffs, BSEK and KoZhaN wherein the Court pointed out that while the Plaintiffs` claims appear to be baseless, it is obvious that the true intention of the Plaintiffs along with the co-defendants, was to challenge the commercial terms of the 2003 SPA due to the alleged non-performance by BSEK of its obligations thereunder. The Court suggested that the parties enter into a settlement agreement.

On November 3, 2006, BSEK submitted a letter stating that BSEK`s management had repeatedly applied to the Plaintiffs for co-operation with achieving a settlement. However, not only had they refused to co-operate, they had insisted on drafting and signing an additional agreement to the 2003 SPA to amend its commercial terms.

November 6, 2006, attorneys for BSEK and KoZhaN had preliminary discussions on a possible settlement of the lawsuit. A settlement agreement with the Plaintiffs was not reached.

November 7, 2006, BSEK submitted a motion for postponement of the court hearing to permit more time for entering into settlement negotiations.

November 22, 2006, with no settlement before it, the trial court issued its decision under which the Plaintiffs` claims were fully dismissed and their claims to thirty-six percent (36%) the BSEK` s participatory interest in KoZhaN were invalidated accordingly.

December 11, 2006, the Plaintiffs appealed the trial court decision of November 22, 2006 to the Civil Collegium of Almaty City Court (the "Appellate Court") requesting a cancellation of this decision and that the case be sent back for new trial.

February 6, 2007, the Appellate Court hearing was held and BSEK filed a motion for postponement of the Court hearing due to non-appearance of all other co-defendants and KoZhaN`s advocate - the motion was declined. Despite strong objections from BSEK to each point of argument, the Appellate Court issued a Resolution cancelling the trial court decision of November 22, 2006 and remanded the case back to the trial court for a new trial.

February 19, 2007, BSEK and KoZhaN appealed the Appellate Court Resolution of February 6, 2007.

March 7, 2007, the preliminary hearing for the BSEK appeal was scheduled with the KoZhaN appeal for March 15, 2007. Both appeals were rejected by the Supervisory Panel of the Almaty City Court.

April 19, 2007, BSEK and KoZhaN submitted their Objections to the Plaintiffs` Additional Claims re Protocol. The Plaintiffs` Advocate submitted the Statement of Claim from Mrs. Tulegenova (spouse of Mr. Baikenov, one of the sellers under the 2003 SPA and one of the former participants of KoZhaN) as a third party with independent claims, which was accepted by the judge. BSEK submitted a motion for postponement of this court hearing due to needing time to acquaint themselves with this Statement of Claim and to prepare responding Objections to it. The Plaintiffs` Advocate filed a letter of application asking the Court not to consider the Plaintiffs additional claims regarding invalidating the Powers of Attorney, (submitted by the Plaintiffs to the trial court in October 2006). BSEK also submitted a motion for postponement of this court hearing due to non-appearance of the Department of Justice, Mr. Mukashev B.R., Mr. Faskhutdinov R.R.; Mr. Kashapov G.S.; and Mrs. Asanova T.N. (the other defendants). The Court hearing was then postponed for April 25, 2006.

April 26, 2007, the District Court reached a new and entirely different decision in favour of the spouses (the "**26 April Judgment**"). It ordered that the 2003 SPA, the Minutes of the Extraordinary General Meeting of KoZhaN dated 11 August 2003 and the re-registration of KoZhaN dated 24 September 2003 at the Department of Justice for the City of Almaty all be invalidated and annulled.

July 6, 2007, the Appellate Court heard the various appeals then pending. The Plaintiffs' withdrew their Private Appeal on Resolution of the trial court dated May 16, 2007, by which the Plaintiffs' motion to seize BSEK' s and KoZhaN' s assets were declined. In respect to KoZhaN' s appeal of the 26 April Judgement, the Appellate Court declined the appeal and the decision of the trial court dated April 26, 2007 was upheld.

BSEK immediately submitted to the General Prosecutor its motion with a request to suspend any execution of this adverse court decision.

July 27, 2007, the General Prosecutor issued its Resolution, by which the execution of the court decision dated April 26, 2007 was suspended until a full review of all court case materials was conducted.

September 25, 2007, BSEK delivered to the Plaintiffs, a Notice of Intention to File a Request for Arbitration with the International Chamber of Commerce, International Court of Arbitration as provided for under the terms of the 2003 SPA.

October 8, 2007, a letter dated October 5, 2007 was received from the Office of the Chief of the Department of the Almaty City Prosecution Office, Counsellor of Justice Zh. M. Atanov, wherein he advised that his office was issuing a supervisory protest dated October 5, 2007 with a request to reverse the previous court decision and to dismiss in full the Plaintiffs' claims, which was submitted to the Supervisory Board of the Almaty City Court.

October 26, 2007, the Supervisory Board of the Almaty City Court heard arguments related to the supervisory protest raised by the Office of the Chief of the Department of the Almaty City Prosecution Office, Counsellor of Justice Zh. M. Atanov. The Supervisory Board sat for five (5) minutes prior to dismissing the General Prosecutor' s supervisory protest.

October 28, 2007, the General Prosecutor issued a new protest and stopped all actions on the case for a further three (3) month period. On that same day, subsequent to a letter from Big Sky Energy Kazakhstan Ltd. being delivered to the Office of the President of the Republic of Kazakhstan, a resolution from the Office of the President was issued and delivered to the the General Prosecutor wherein he was instructed to "investigate this problem and protect the investors". The General Prosecutor then issued a new protest and stopped all actions on the case for a further 3 month period.

October 30, 2007, the Supervisory Board of the Almaty City Court heard arguments related to the supervisory protest raised by the Office of the Chief of the Department of the Almaty City Prosecution Office, Counsellor of Justice Zh. M. Atanov. The Supervisory Board sat for five minutes prior to dismissing such supervisory protest.

November 1, 2007, the General Prosecutor of the Republic of Kazakhstan issued a Decree on Suspension of Court Decision Execution and sent a copy of such Decree to Big Sky Energy Kazakhstan Ltd. on November 2, 2007. Such Decree, like the Supervisory Protest issued by the Almaty City Prosecutor' s Office on July 27, 2007, is a stay of execution of the prior trial court' s decision in this matter for a period of three (3) months.

On or about January 14, 2008, the Corporation received a Resolution of the Chief of the 1st Department of the General Prosecutor' s Office of Kazakhstan, senior advisor of justice Mr. Kravchenko A.N., wherein it was advised that the Prosecutors Office had determined there were elements of crime under item B part 3 of Article 177 of the RK Criminal Code in the indicated actions of the former participants of KoZhaN and their spouses in seeking to invalidate the 2003 Sale Purchase Agrement and that as per Articles 177, 186 and 189 of the RK Criminal Procedure Code, and Articles 20, 29 of the RK Law, the Prosecutor' s Office had decided to:

1. To open a criminal case of fraud under item B part 3 of Article 177 of the RK Criminal Code.

2. To send this criminal case to the Committee of National Security of Kazakhstan for conduct of preliminary investigation.

3. To notify all concerned parties about this decision.

February 8, 2008, BSEK received the written decision of the Supervisory Collegium of the Supreme Court subsequent to its hearing held on January 30, 2008. The hearing concerned the Protest of the General Prosecutor in respect of the claim filed by the Plaintiffs against BSEK.; Department of Justice in the City of Almaty, Notary Kanadanova, to invalidate the agreement for purchase and sale of the interests in KoZhaN LLP, the Extraordinary Meeting of the LLP and other relief, under Article 398 of the Code of Civil Procedure. This decision is particularly of concern to the Corporation in that it was taken by the court, notwithstanding the fact that Mr. Seidagaliyev and Mrs. Tulegenova **renounced their claims in full, jointly with their respective spouses**, Mrs. Asanova and Mr. Baikenov,

respectively. They stated in the aforesaid joint statements that generally they were aware of the 2003 SPA and had no objections as to such transaction; therefore they issued powers of attorney in the name of Mr. Mukashev authorizing him to sign on their behalves the 2003 SPA.

The Corporation is intending to appeal this Resolution via the General Prosecutor to the Plenum of the RK Supreme Court.

KoZhaN is the sole revenue producing subsidiary of the Company which holds all of the Company' s oil assets. If the Company does not successfully defend its interest it could lose up to 90% of its ownership interest in that subsidiary and the revenue therefrom.

Operating Hazards and Insurance

The oil and gas business involves a variety of operating risks, including the risk of fire, explosions, blow-outs, pipe failure, abnormally pressured formation, and environmental hazards such as oil spills, gas leaks, ruptures or discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Corporation due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations.

The Corporation maintains certain insurance of various types to cover its operations with policy limits and retention liability customary in the industry given the size of the Corporation and its operations.

There can be no assurance that insurance, if any, will be adequate to cover any losses or exposure to liability. Although the Corporation believes that the policies obtained by operators provide coverage in scope and in amounts customary in the industry, they do not provide complete coverage against all operating risks. An uninsured or partially insured claim, if successful and of significant magnitude, could have a material adverse effect on the Corporation and its financial condition via its contractual liability to the prospect.

27. NON-CASH TRANSACTION NOT DISCLOSED ELSEWHERE

In 2005, O&G property increased $86,159 through work performed by ABT, Inc. which increased the amount due under the interest free loan from ABT, Inc. by the same amount.

In 2005, O&G property increased $324,586 due to the increase in the asset retirement obligation to restore and abandon the Corporation' s well sites on the Morskoye, Karatal and Dualetaly fields.

In 2005, O&G property increased $446,250 due to the increased deferred tax liability associated with the Corporation' s buyout of the remaining minority holders of its KoZhaN subsidiary.

All 2006 non cash transactions are disclosed in other footnotes elsewhere.

28. SUBSEQUENT EVENTS

In January 2007 the Company was granted a limited one year exception to allow it to sell up to 80% of its production under the pilot development program into the international export market. The MEMR had the right to terminate the exemption at any time. The Company simultaneously entered into a contract with Eurasian Oil AG to sell its oil production. The contract price for oil delivery for the 20% domestic sales was set at approximately $28 per barrel. In addition, Eurasian Oil AG agreed to prepay for $2.5 million in oil deliveries. This prepayment was satisfied through the delivery of oil produced in 2007.

In February 2007, the Corporation entered into an agreement with Hillgate Associates Ltd (effective as of December 9, 2006) in respect of the services of Dr. Servet Harunoglu as Chief Executive Officer and including the granting of 2,000,000 options to purchase shares of common stock at $0.50, fully vested. The Corporation also granted additional stock options to Dr. Servet Harunoglu for up to 5 million additional shares of the Corporation' s common stock, on the following terms:

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(i) 2.5 million options shall vest upon the Corporation entering into and closing a satisfactory transaction with a local Kazakhstan partner, with the Corporation' s Board of Directors having sole discretion in determining if such transaction is satisfactory;

(ii) 2.5 million options shall vest upon the closing market bid price for the Corporation' s common stock exceeding US$1.00 per share for a minimum of five (5) consecutive trading days.

(iii) all options granted under this subparagraph (2) shall be exercisable for a period of two (2) years from the date of grant and have an exercise price of $0.65 per share.

In February, 2007, Mr. Bruce H Gaston resigned as Chief Financial Officer and Mr. Pankaj Mittal was appointed to that position.

In April 2007, the Corporation entered into Consultancy Agreements with MH Financial Management Ltd. and Suntree Ltd. and the granted options to purchase shares of common stock of the Corporation to:

Matthew J Heysel	2,000,000	$0.50	Fully Vested	1 year to exercise
Barry R. Swersky	1,000,000	$0.50	Fully Vested	1 year to exercise
Phillip Pardo	250,000	$0.50	Fully Vested	1 year to exercise
Daniel Feldman	250,000	$0.50	Fully Vested	1 year to exercise

In addition, the Corporation granted Mr. Matthew J Heysel, a further option to purchase an additional 2 Million shares of common stock at an exercise price of $0.65 per share. Such additional grant shall vest upon the closing market bid price for the Corporation' s common stock exceeding US$1.00 per share for a minimum of 5 consecutive trading days and shall be exercisable for a period of 1 year from the date of termination of this agreement.

In April 2007, the Corporation issued a warrant to Ingalls & Snyder Value Partners LP, to purchase 12,295,982 fully paid and non assessable shares of the Corporation' s common stock, at the price of US$1.22 per share, and such warrant may be exercised by Holder at any time or from time to time prior to the close of business on April 16, 2009.

In July 2007, the MEMR approved the entry of the producing wells into the full field development program, which put the Morskoye production sharing contract into the production phase. The Morskoye production sharing contract was amended at that time to allow up the Company to sell up to 80% of production into the export market during the production phase of the contract.

In July 2007, the Corporation announced the resignation of Mr. Pankaj Mittal as Chief Financial Officer.

In December 2007, the Corporation granted 100,000 options at $1.00 per share to Mrs. M Collet,to be vested as per the Big Sky Stock Award Plan.

In December 2007, the Corporation entered into Consultancy Agreements with MH Financial Management Ltd. and Suntree Ltd. and granted options to purchase shares of common stock of the Corporation as follows:

Matthew J Heysel	8,000,000	$0.10	Cancellation of all prior option grants
Servet Harunoglu	10,000,000	$0.10	not exercised as of December 12, 2007. 20% - IMMEDIATE VESTING
Barry R. Swersky	6,000,000	$0.10	10% upon share price reaching $0.35 for 5 consecutive trading days 25% upon share price reaching $0.50 for 5 consecutive trading days 45% upon share price reaching $1.00

BIG SKY ENERGY CORPORATION
Notes to Consolidated Financial Statements

29. SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (unaudited)

Proved reserves are estimated quantities of oil, gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved reserves are reserves that can reasonably be expected to be recovered through existing wells with existing equipment and operating methods. The reserve volumes presented are estimates only and should not be construed as being exact quantities. These reserves may or may not be recovered and may increase or decrease as a result of our future operations and changes in economic conditions. Our oil and gas reserves were prepared by independent reserve engineers at December 31, 2006. Prior to 2006, there were no proved reserves.

Results of operations for oil and gas producing activities, all in Kazakhstan, were as follows for the year ended December 31:

	2006	2005
Net Revenues	$ 8,547,584	$ 525,518
Operating expenses	(2,311,319)	(178,968)
Depreciation, depletion and amortization	(7,716,822)	-
Geological & Geophysical costs	(2,722,358)	(6,339,377)
Impairment of Oil & Gas Properties	(50,267,353)	(9,537,245)
Operating loss	(54,470,268)	(15,530,072)
Income tax provision	(808,450)	-
Results of Operations for Oil and Gas Producing Activities	$ (55,278,718)	$ (15,530,072)

Costs incurred for oil and gas property acquisition, exploration and development activities

Costs incurred for oil and gas property acquisition, exploration and development activities for 2006 and 2005 are as follows:

Year Ended December 31, 2006	
Property Acquisition	
Unproved	$ -
Proved	44,583,530
Exploration	8,634,592
Development	1,905,665
Total costs incurred	$ 55,123,787
Year Ended December 31, 2005	
Property Acquisition	
Unproved	$ -
Proved	-
Exploration	20,184,025
Development	-

Total costs incurred	$ 20,184,025

BIG SKY ENERGY CORPORATION
Notes to Consolidated Financial Statements

Oil and Gas Reserves

At December 31, 2005, the Corporation had producing wells on test production (three wells on the Morskoye field and one on the Karatal field). However, since the wells had only started producing in the last weeks of December 2005 and being the first wells drilled and on long-term test production, no proved reserves were established as of December 31, 2005.

The following tables set forth our net proved oil and gas reserves, including the changes therein, and net proved developed reserves at December 31, 2006, as estimated by the independent petroleum engineering firm, Sproule, International Ltd.:

(in thousands of barrels)	**2006**	**2005**
January 1	-	-
Purchase of properties	-	-
Revisions of previous estimates	-	-
Extension, discoveries, other additions	1,801	-
Production	(502)	-
Disposition of properties	-	-
	1,299	-

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS RELATING TO PROVED OIL AND GAS RESERVES

Future cash inflows and future production and development costs are determined by applying year-end prices and costs to the estimated quantities of oil and gas to be produced. Estimated future income taxes are computed using current statutory income tax rates for where production occurs. The resulting future net cash flows are reduced to present value amounts by applying a 10% annual discount factor.

Estimates of future cash inflows are based on prices at year-end. Oil, gas and condensate prices are escalated only for fixed and determinable amounts under contractual provisions. Estimated future cash inflows are reduced by estimated future development, production, abandonment and dismantlement costs based on year-end cost levels, assuming continuation of existing economic conditions, and by estimated future income tax expense.

The standardized measure of discounted future net cash flows is not intended to present the fair market value of our oil and gas reserves. An estimate of fair value would also take into account, among other things, the recovery of reserves in excess of proved reserves, anticipated future changes in prices and costs, an allowance for return on investment and the risks inherent in reserve estimates.

The standardized measure of discounted future net cash flows relating to proved oil and gas reserves is as follows:

(in Thousands)	**2006**	**2005**
Future cash inflows	$ 40,409	$ -
Less related future:		
Production costs	(7,861)	-
Development & abandonment costs	(12,767)	-
Future net cash flows before income taxes	19,781	-
Future income taxes	(5,150)	-

Future net cash flows (1)	14,631	-
10% annual discount for estimating timing of cash flows	(2,773)	-
Standardized measure if discounted future net cash flows	$ 11,858	$ -

BIG SKY ENERGY CORPORATION
Notes to Consolidated Financial Statements

A summary of the changes in the standardized measure for the discounted future net cash flows applicable to proved oil and gas reserves for Kazakhstan is as follows:

(in Thousands)	**2006**	**2005**
Beginning of Year	$ -	$ -
Purchase (sale) of reserves in place	-	-
Revisions of previous estimates	-	-
Development costs incurred during the period	(1,906)	-
Additions to proved reserves resulting from		
Extensions, discoveries & improved	-	-
Recovery	20,000	-
Accretion of discount	-	-
Sales of oil & gas, net of production costs	(6,236)	-
Net change in sales prices, net of		
Production costs	-	-
Changes in production rates (timing) and other	-	-
Net increase (decrease)	11,858	
End of Year	$ 11,858	$ -

ARTICLES OF INCORPORATION

OF

BIG SKY ENERGY CORPORATION

ARTICLE I

SECTION 1.01 CORPORATION NAME. The name of the Corporation is:

BIG SKY ENERGY CORPORATION

ARTICLE 2

SECTION 2.01 PRINCIPAL OFFICES. The Corporations principal office in the State of Nevada is located at 5025 S, McCarran Blvd., Suite 3178, in the city of Reno, County of Washoe, State of Nevada, Zip Code 89502.

SECTION 2.02 ADDITIONAL OFFICES. The corporation may maintain an office, or offices in such other place within or without the State of Nevada as may be from time to time designated by the Board of directors, or by the By-Laws of said Corporation, and that this Corporation may conduct all Corporation business of every kind and nature, including the holding of all meetings of Directors and Stockholders, outside the State of Nevada as well as within the State of Nevada.

ARTICLE 3

SECTION 3.01 NATURE OF BUSINESS. The initial nature of the Corporations business is to provide consulting services to businesses. The Corporation may engage in any lawful activity for which a corporation may be arranged under the General Laws of Nevada.

SECTION 3.02 ADDITIONAL ACTIVITIES. The Corporation may engage in any lawful activity including, but not limited to, the following:

A. Shall have the power to make contracts.

B. Shall have the power to purchase, hold, and sell or convey Real Property or Personal Property. The Corporation may purchase, hold or sell Real Property or Personal Property in the State of Nevada or in any other State, Territory of the United States, or any Country.

C. Shall have the power to appoint such officers or agents as the officers of the corporation shall require, and shall have the power to pay compensation for the services provided.

D. Shall have the power to borrow money and contract debts as necessary for the benefit of the Corporation's business.

E. Shall have the power to lend money as is necessary for the benefit of the corporation's business.

F. Shall have the power to enter into General or Limited Partnerships, Joint Ventures or other business associations.

G. Shall have the power to make donations for the benefit of the public welfare,

charitable, scientific or educational purposes.

ARTICLE 4

SECTION 4.01 CAPITAL STOCK. The Corporation is authorized to issue Two Thousand Five Hundred (2500) shares of stock without par value. The stock

shall be common stock.

SECTION 4.02 USE OF STOCK. The Board of Directors may fix the use of the stock from time to time as they deem necessary for the carrying out of the Corporation's business.

ARTICLE 5

SECTION 5.01 GOVERNING BOARD. The Governing Board of the Corporation shall be known as Directors. The Board of Directors shall be elected by the stockholders at the annual meeting, or such other time as the bylaws may provide, and shall hold office until their successors are respectively elected and qualified.

SECTION 5.02 NUMBER OF DIRECTORS. The initial Board of Directors shall number one (1) Director. The number of Directors may from time to time be increased or decreased in such a manner as shall be provided by the By-Laws of this Corporation, providing that the number of Directors conforms to the Statutes of the Corporation Law of the State of Nevada.

SECTION 5.03 INITIAL DIRECTORS NAME AND ADDRESS. The name and post office address of the Board of Director is: Phillip Herr 5025 S. McCARRAN BLVD., #178 RENO, NV 89502

ARTICLE 6

SECTION 6.01 ASSESSMENT OF STOCKHOLDERS FOR CORPORATE DEBT. The Capital Stock after issuance and the subscription price has been paid are not assessable to pay for the debts of the Corporation. The private property of Shareholders, Directors, Officers, employees and/or Agents of the Company shall be forever exempt from all corporate debts of any kind whatsoever.

ARTICLE 7

SECTION 7.01 INCORPORATORS. The name and post office address of the incorporators signing the articles of Incorporation are:

Phillip Herr
5025 S. McCARRAN BLVD., #178
RENO, NV 89502

ARTICLE 8

SECTION 8.01 LIST OF CORPORATION EXISTENCE. The Corporation is to have perpetual existence.

ARTICLE 9

SECTION 9.01 RESIDENT AGENT. The resident agent for this Corporation shall be:

AMERICAN CORPORATE REGISTER INC. 5025 S. McCARRAN BLVD., #178 RENO, NV. 89502

NOTARIZATION

I hereby sign as the incorporator for the above corporation.

/s/ Incorporator
Incorporator
State of California)
County of San Diego)

On December 30, 1992, Personally appeared before me, a notary public in the State of California, personally known to me to be the person whose name is subscribed to the above instrument who acknowledged to me that he/she/they executed this instrument.

_____
Louis Peter Martinez, Sr.
Notary Public

BY-LAWS
OF

BIG SKY ENERGY CORPORATION.

a Nevada corporation
(the "Corporation")

Amended and Restated as of March 1, 2006

ARTICLE 1
Offices

Section 1.01 -- Principal And Registered Office.

The registered office of the Corporation is hereby fixed and located at 1495 Ridgeview Drive, Reno, Nevada 89509. The Corporation's principal executive and administrative offices shall be located at Ste 6, 8 Shepherd Market, London, UK W1J 7JY. The Corporation may have such other offices, within or without any state of the United States, as the Corporation's Board of Directors (the "Board") may designate or as the business of the Corporation may require from time to time.

The registered office of the Corporation shall be maintained in the State of Nevada and the address of the registered office, principal executive offices and any administrative offices may be change from time to time by the Board of Directors.

Section 1.02 -- Other Offices.

Branch or subordinate offices may at any time be established by the Board at any place or places where the Corporation is qualified to do business.

ARTICLE 2

Meetings of Shareholders

Section 2.01 -- Meeting Place.

All annual meetings of shareholders and all other meetings of shareholders shall be held at the principal office or at any other place within or without the State of Nevada, which may be designated by the Board.

Section 2.02 -- Annual Shareholders Meetings.

A. The annual shareholders' meeting may be called by the entire Board, any two (2) directors or by the Chief Executive Officer of the Corporation. The annual shareholders' meeting shall be held on the date and at the time and place fixed by the person(s) calling such meeting; provided, however, that the first annual meeting shall be held on a date that is within six months after the close of the first fiscal year of the Corporation and each successive annual meeting shall be held on a date that is within the earlier of six (6) months after the close of the last fiscal year or fifteen (15) months after the last annual meeting.

B. Written notice of each annual meeting signed by an officer, or by such other person or persons as designated by the person or persons calling the meeting, shall be given to each shareholder entitled to vote thereat, either personally or by mail or other means of written communication, charges prepaid,addressed to such shareholder at his address appearing on the books of the Corporation or given by him to the Corporation for the purpose of notice. If a shareholder gives no address, notice shall be deemed to have been given to him if sent by mail or other means of written communication addressed to the place where the

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principal office of the Corporation is situated, or if published at least once in some newspaper of general circulation in the county in which said office is located. All such notices shall be sent to each shareholder entitled thereto, or published, not less than ten (10) nor more than sixty (60) days before each annual meeting, and shall specify the place, the day and the hour of such meeting, and shall also state the purpose or purposes for which the meeting is called.

C. Failure to hold the annual meeting shall not constitute dissolution or forfeiture of the Corporation, and a special meeting of the shareholders may take the place thereof.

Section 2.03 -- Special Meetings.

Special meetings of the shareholders, for any purpose or purposes whatsoever, may be called at any time by the Chief Executive Officer, by the entire Board, by two (2) directors or by one or more shareholders holding not less that 10% of the voting power of the Corporation. Except in special cases where other express provision is made by statute, notice of such special meetings shall be given in the same manner as for annual meetings of shareholders. Notices of any special meeting shall specify in addition to the place, day and hour of such meeting, the purpose or purposes for which the meeting is called.

Section 2.04 -- Adjourned Meetings And Notice Thereof.

A. Any shareholders' meeting, annual or special, whether or not a quorum is present, may be

adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but in the absence of a quorum, no other business may be transacted at any such meeting.

B. When any shareholders' meeting, either annual or special, is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which such adjournment is taken.

Section 2.05 -- Entry Of Notice.

Whenever any shareholder entitled to vote has been absent from any meeting of shareholders, whether annual or special, an entry in the minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such shareholder, as required by law and these bylaws.

Section 2.06 -- Voting.

At all annual and special meetings of shareholders, each shareholder entitled to vote thereat shall have one vote for each share of stock so held and represented at such meetings, either in person or by written proxy, unless the Corporation's articles of incorporation ("Articles") provide otherwise, in which event, the voting rights, powers and privileges prescribed in the Articles shall prevail. Voting for directors and, upon demand of any shareholder, upon any question at any meeting, shall be by ballot. If a quorum is present at a meeting of the shareholders, the vote of a majority of the shares represented at suchmeeting shall be sufficient to bind the Corporation, unless otherwise provided by law or the Articles.

Section 2.07 -- Quorum.

The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business. The shareholders present at a duly

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called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 2.08 -- Consent Of Absentees.

The transactions of any meeting of shareholders, either annual or special, however called and notice given thereof, shall be as valid as though done at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before of after the meeting, each of the shareholders entitled to vote, not present in person or by proxy, sign a written Waiver of Notice, or a consent to the holding of such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of such meeting.

Section 2.09 -- Proxies.

Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the Secretary of the Corporation; provided however, that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution, unless the shareholder executing it specifies therein the length of time for which such proxy is to continue in force, which in no case shall exceed seven (7) years from the date of its execution.

Section 2.10 -- Shareholder Action Without A Meeting.

Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a written consent thereto is signed by shareholders holding at least a majority of the voting power, except that if a different proportion of voting power is required for such an action at a meeting, then that proportion of written consents is required. In no instance where action is authorized by this written consent need a meeting of shareholders be called or notice given. The written consent must be filed with the proceedings of the shareholders.

ARTICLE 3
Board of Directors

Section 3.01 -- Powers.

Subject to the limitations of the Articles, these bylaws, and the provisions of Nevada corporate law as to action to be authorized or approved by the shareholders, and subject to the duties of directors as prescribed by these bylaws, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be controlled by, the Board. Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the directors shall have the following powers:

a. To select and remove all officers, agents and employees of the Corporation, prescribe such powers and duties for them as are not inconsistent with law, with the Articles, or these bylaws, fix their compensation, and require from them security for faithful service.

b. To conduct, manage and control the affairs and business of the Corporation, and to make such rules and regulations therefore not inconsistent with prevailing law, the Articles, or these bylaws, as they may deem best.

c. To change the principal office for the transaction of the business if such change becomes necessary or useful; to fix and locate from time to time one or more subsidiary offices of the

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Corporation within or without the State of Nevada, as provided in Section 1.02 of Article 1 hereof; to designate any place within or without the State of Nevada for the holding of any shareholders' meeting or meetings; and to adopt, make and use a corporate seal, and to prescribe the forms of certificates of stock, and to alter the form of such seal and of such certificates from time to time, as in their judgment they may deem best, provided such seal and such certificates shall at all times comply with the provisions of law.

d. To authorize the issuance of shares of stock of the Corporation from time to time, upon such terms as may be lawful, in consideration of money paid, labor done or services actually rendered, debts or securities canceled, or tangible or intangible property actually received, or in the case of shares issued as a dividend, against amounts transferred from surplus to stated capital.

e. To borrow money and incur indebtedness for the purposes of the Corporation, and to cause to be executed and delivered therefore, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecation or other evidences of debt and securities therefore.

f. To appoint an executive committee and other committees and to delegate to the executive committee any of the powers and authority of the Board in management of the business and affairs of the Corporation, except the power to declare dividends and to adopt, amend or repeal bylaws. The executive committee shall be composed of one or more directors.

Section 3.02 -- Number And Qualification Of Directors.

The authorized number of directors of the Corporation shall be at least **three (3)** and not more than **eleven (11)**. The actual number of authorized directors shall be set by the Board of Directors, subject to the limitations set forth in Section 3.04. D below.

Section 3.03 -- Election And Term Of Office.

The directors shall be elected at each annual meeting of shareholders, but if any such annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders. All directors shall hold office until their respective successors are elected.

Section 3.04 -- Vacancies.

a. Vacancies in the Board may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected or appointed shall hold office until his successor is elected at an annual or a special meeting of the shareholders.

b. A vacancy or vacancies in the Board shall be deemed to exist in case of the death, resignation or removal of any director, or if the authorized number of directors be increased, or if the shareholders fail at any annual or special meeting of shareholders at which any director or directors are elected to elect the full authorized number of directors to be voted for at that meeting.

c. The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors.

d. No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of his term of office.

ARTICLE 4
Meetings of the Board of Directors

Section 4.01 -- Meetings of the Board of Directors.

(a) Regular meetings and special meetings of the Board shall be held at any date, time and place within or without the State of Nevada which has been designated in any notice of the meeting or if not stated in said notice, or, if there is no notice given, at the place designated by resolution of the Board or by written consent of all members of the Board. In the absence of such designation of place, regular meetings shall be held at the administrative office of the Corporation. Failure to hold an annual meeting of the Board shall not constitute forfeiture or dissolution of the Corporation.

(b) Regular meetings may be called by the Chairman of the Board, if any and acting, by the President, if any, or by any two members of the Board of Directors.

Section 4.02 -- Organization Meeting.

Immediately following each annual meeting of shareholders, the Board shall hold a regular meeting for the purpose of organization, election of officers, and the transaction of other business.

Section 4.03 - Attendance by Telephone:

One or more directors may participate in a regular or special meeting by means of a telephone conference or similar methods of communication by which all persons participating in the meeting can hear each other. Participation in a meeting by this manner constitutes presence in person at the meeting.

Section 4.04 -- Special Meetings.

a. Special meetings of the Board may be called at any time for any purpose or purposes by the Chairman of the Board, if any and acting, by the President, if any, or by any two members of the Board.

b. Written notice of the time and place of special meetings shall be delivered personally to each director or sent to each director by certified mail (including overnight delivery services such as Federal Express), facsimile transmission or telegraph, charges prepaid, addressed to him at his address as it is shown upon the records of the Corporation, or if it is not shown upon such records or is not readily ascertainable, at the place in which the regular meetings of the directors are normally held. Written notice may also be provided via email, provided the notice is sent to the latest email address provided by to the Corporation by the recipient. No notice is valid unless delivered to the director to whom it was addressed at least twenty-four (24) hours prior to the time of the holding of the meeting. In the case of delivery by certified mail, such mailing shall be deemed to have been delivered at least twenty-four (24) hours prior to the meeting if deposited at a United States post office two (2) business days prior to the meeting if sent to an address within the State of Nevada or five (5) calendar days prior to the meeting if sent to an address outside the State of Nevada. In the case of overnight delivery, telecopying or telegraphing, delivery shall be deemed to be completed upon receipt of the notice at the address (or facsimile number) provided in the records of the Corporation for such member.

Section 4.05 -- Notice Of Adjournment.

Notice of the time and place of holding an adjourned meeting need not be given to absent directors, if the time and place be fixed at the meeting adjourned.

Section 4.06 -- Waiver Of Notice.

The transactions of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though a meeting had been duly held after regular call and notice, if a quorum be present, and

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if, either before or after the meeting, each of the directors not present sign a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 4.07 -- Quorum.

If the Corporation has only one director, then the presence of that one director constitutes a quorum. If the Corporation has only two directors, then the presence of both such directors is necessary to constitute a quorum. If the Corporation has three or more directors, then a majority of those directors shall be necessary to constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. A director may be present at a meeting either in person or by telephone. Every act or decision done or made by a majority of the directors present at a

meeting duly held at which a quorum is present, shall be regarded as the act of the Board, unless a greater number be required by law or by the Articles.

Section 4.08 -- Adjournment.

A quorum of the directors may adjourn any directors' meeting to meet again at a stated day and hour; provided however, that in the absence of a quorum, a majority of the directors present at any directors' meeting, either regular or special, may adjourn such meeting only until the time fixed for the next regular meeting of the Board.

Section 4.09 -- Fees And Compensation.

Directors shall not receive any stated salary for their services as directors, but by resolution of the Board, a fixed fee, with or without expenses of attendance, may be allowed for attendance at each meeting. Nothing stated herein shall be construed to preclude any director from serving the Corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation therefore.

Section 4.10 -- Action Without A Meeting.

Any action required or permitted to be taken at a meeting of the Board, or a committee thereof, may be taken without a meeting if, before or after the action, a written consent thereto is signed by all the members of the Board or of the committee. The written consent must be filed with the proceedings of the Board or committee.

ARTICLE 5
Officers

Section 5.01 -- Executive Officers.

The executive officers of the Corporation shall be a Chief Executive Officer, President, a Secretary, and a Chief Financial Officer or such other offices as may be designated. The Corporation may also have, at the direction of the Board, a Chairman of the Board, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.03 of this Article. Officers other than the Chairman of the Board need not be directors. Any one person may hold two or more offices, unless otherwise prohibited by the Articles or by law.

Section 5.02 -- Appointment.

The officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.03 and 5.05 of this Article, shall be appointed annually by the Board, and each shall hold his office until he resigns or is removed or otherwise disqualified to serve, or his successor

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is appointed and qualified.

Section 5.03 -- Subordinate Officers, Etc.

The Board may appoint such other officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

Section 5.04 -- Removal And Resignation.

a. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board.

b. Any officer may resign at any time by giving written notice to the Board or to the Chief Executive Officer or Secretary. Any such resignation shall take effect on the date such notice is received or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5.05 -- Vacancies.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

Section 5.06 -- Chairman of the Board.

The Chairman of the Board, if there be such an officer, shall, if present, preside at all meetings of the Board, and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board or prescribed by these bylaws.

Section 5.07 - Chief Executive Officer.

Subject to such supervisory powers, if any, as may be given by the Board to the Chairman of the Board (if there be such an officer), the Chief Executive Officer shall, subject to the control of the Board, have general supervision, direction and control of the business and officers of the Corporation. He shall preside at all meetings of the shareholders and, at all meetings of the Board. He shall be an ex-officio member of all the standing committees, including the executive committee, if any, and shall have the general powers and duties of management usually vested in the office of Chief Executive Officer of a corporation, and shall have such other powers and duties as may be prescribed by the Board or these bylaws.

Section 5.08 -- President.

In the absence or disability of the Chief Executive Officer, the President, shall perform all the duties of the Chief Executive Officer and when so acting shall have all the powers of, and be subject to all the restrictions upon, the Chief Executive Officer. The President shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board or these bylaws.

Section 5.08 - Vice-President.

In the absence of the President or in the event of his/her death, inability or refusal to act, the Vice-President or Vice-Presidents, in the order designated at the time of their election, or in the absence of any designation, in the order of their election, shall perform the duties of the President, and when so acting,

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shall have all the powers of and be subject to all the restrictions upon the President. Any Vice-President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Corporation, and shall perform such other duties as from time to time may be assigned to him/her by the President or by the Board of Directors.

Section 5.09 -- Secretary.

a. The Secretary shall keep, or cause to be kept, at the administrative office or such other place as the Board may direct, a book of (i) minutes of all meetings of directors and shareholders, with the time and place of holding, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present and absent at directors' meetings, the number of shares present or represented at shareholders' meetings, and the proceedings thereof; and (ii) any waivers, consents, or approvals authorized to be given by law or these bylaws.

b. The Secretary shall keep, or cause to be kept, at the administrative office, or such other place as the Board may direct, a share register, or a duplicate share register, showing (i) the name of each shareholder and his or her address; (ii) the number and class or classes of shares held by each, and the number and date of certificates issued for the same; and (iii) the number and date of cancellation of every certificate surrendered for cancellation.

Section 5.10 - Chief Financial Officer.

A. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, surplus and shares. Any surplus, including earned surplus, paid-in surplus and surplus arising from a reduction of stated capital, shall be classified according to source and shown in a separate account. The books of account shall at all times be open to inspection by any director.

b. The Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board. He shall disburse the funds of the Corporation as may be ordered by the Board, shall render to the Chief Executive Officer and directors, whenever they request it, an account of all of his transactions as Chief Financial Officer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board or these bylaws.

Section 5.11 - Assistant Secretaries and Assistant Treasurers.

The Assistant Secretaries, when authorized by the Board of Directors, may sign with the President or a Vice-President, certificates for shares of the Corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general shall perform such duties as shall be assigned to them by the Secretary or Chief Financial Officer, respectively, or by the President or the Board of Directors.

ARTICLE 6
Miscellaneous

Section 6.01 -- Record Date and Closing Stock Books.

The Board may fix a time in the future, not exceeding sixty (60) days preceding the date of any meeting of shareholders, and not exceeding thirty (30) days preceding the date fixed for the payment of any dividend or distribution, or for the allotment of rights, or when any change or conversion or exchange of

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shares shall go into effect, as a record date for the determination of the shareholders entitled to notice of and to vote at any such meeting, or entitled to receive any such dividend or distribution, or any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares, and in such case only shareholders of record on the date so fixed shall be entitled to notice of and to vote at such meetings, or to receive such dividend, distribution or allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as herein set forth. The Board may close the books of the Corporation against transfers of shares during the whole, or any part, of any such period.

Section 6.02 -- Inspection of Corporate Records.

The share register or duplicate share register, the books of account, and records of proceedings of the shareholders and directors shall be open to inspection upon the written demand of any shareholder or the holder of a voting trust certificate, at any reasonable time, and for a purpose reasonably related to his interests as a shareholder or as the holder of a voting trust certificate, and shall be exhibited at any time when required by the demand of ten percent (10%) of the shares represented at any shareholders' meeting. Such inspection may be made in person or by an agent or attorney, and shall include the right to make extracts. Demand of inspection other than at a shareholders' meeting shall be made in writing upon the Chief Executive Officer, Secretary, or Assistant Secretary, and shall state the reason for which inspection is requested.

Section 6.03 -- Checks, Drafts, Etc.

All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board.

Section 6.04 -- Contracts, Etc., How Executed.

The Board, except as otherwise provided in these bylaws, may authorize any officer, officers, agent, or agents, to enter into any contract, deed or lease, or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances; and unless so authorized by the Board, no officer, agent, or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or render it liable for any purpose or for any amount.

Section 6.05 -- Certificates of Stock.

A certificate or certificates for shares of the capital stock of the Corporation shall be issued to each shareholder when any such shares are fully paid up. All such certificates shall be signed by the Chief Executive Officer and the Secretary or be authenticated by facsimiles of the signature of the Chief Executive Officer and Secretary or by a facsimile of the signatures of the Chief Executive Officer and the written signature of the Secretary. Every certificate authenticated by a facsimile of a signature must be countersigned by a transfer agent or transfer clerk.

Section 6.06 -- Representations of Shares of Other Corporations.

The Chief Executive Officer and the Secretary of this Corporation are authorized to vote, represent, and exercise on behalf of this Corporation, all rights incident to any and all shares of any other corporation or corporations standing in the name of this Corporation. The authority herein granted to said officers to vote or represent on behalf of this Corporation or companies may be exercised either by such officers in person or by any person authorized so to do by proxy or power of attorney duly executed by said officers.

Section 6.07 -- Inspection of Records.

a. The Corporation shall make available to any person who has been a stockholder of

record and owns not less than 15 percent of all of the Corporation' s issued and outstanding shares or has been authorized in writing by the holders of at least 15 percent of all of its issued and authorized shares, upon at least five day' s written demand, during normal business hours, its books of account and all financial records for inspection, for copying and to conduct an audit of such records. Alls costs for making copies of records or conducting an audit shall be borne by the stockholder exercising these rights.

b. The Corporation shall keep a copy of the following records at its registered office:

(i) a copy certified by the secretary of state of its articles of incorporation and all amendments thereto;

(ii) a copy certified by an officer of the Corporation of its bylaws and all amendments thereto; and

(iii) a stock ledger revised annually, containing the names, of all persons who are stockholders of the Corporation, showing their places of residence, if known, and the number of shares owned by them respectively.

c. Any person who has been a stockholder of record of the Corporation for at least six monthsimmediately proceeding his demand, or any person holding at least 5% of all of the Corporation' s outstanding shares, upon at least 5 days written demand shall be entitled to inspect

in person or by agent or attorney during usual business hours the records required by subsection (b) above and make copies therefrom. The Corporation shall impose a reasonable change to recover the costs of labor and materials and the cost of copies of any documents provided to the stockholder.

Section 6.08 -- Indemnification.

The Corporation shall indemnify its officers and directors for any liability including reasonable costs of defense arising out of any act or omission of any officer or director on behalf of the Corporation to the full extent allowed by the laws of the State of Nevada.

ARTICLE 7
Amendments

Section 7.01 -- Power of Shareholders.

New bylaws may be adopted, or these bylaws may be amended or repealed, by the affirmative vote of the shareholders collectively having a majority of the voting power or by the written assent of such shareholders.

Section 7.02 -- Power of Directors.

Subject to the rights of the shareholders as provided in Section 7.01 of this Article, bylaws other than a bylaw, or amendment thereof, changing the authorized number of directors, may also be adopted, amended, or repealed by the Board.

Certificate of Secretary

The undersigned does hereby certify that the undersigned is the Secretary of Big Sky Energy Corporation., a corporation duly organized and existing under and by virtue of the laws of the State of Nevada; that the above and foregoing bylaws of said Corporation were adopted as such at a duly constituted meeting of the Directors held on March 1, 2006, upon a motion duly made, seconded and carried unanimously and confirmed by the Shareholders on the 1st day of March, 2006, and that the above and foregoing bylaws are now in full force and effect.

DATED: March 2, 2006.

Nancy M C. Simpson Swyer
Secretary

BIG SKY ENERGY CORPORATION
STOCK AWARD PLAN
As Amended on March 1, 2006

SECTION 1. PURPOSE

The purposes of this Big Sky Stock Award Plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to certain individuals providing services to the Company and its Subsidiaries, and to promote the success of the Company' s business and thereby enhance long-term shareholder value. Options granted under the Plan may be incentive stock options (as defined under Section 422 of the Code) or nonqualified stock options, as determined by the Administrator at the time of grant of an option and subject to the applicable provisions of the Code, and the regulations promulgated hereunder. Awards of Restricted Stock may also be made under this Plan.

SECTION 2. DEFINITIONS

As used herein, the following definitions shall apply:

2.1 "Administrator" means the Board or any of its Committees or any officer appointed as permitted under this Plan.

2.2 "Applicable Laws" means the legal requirements relating to Stock Award Plans, if any, pursuant to U.S. state corporate laws, U.S. federal and state securities laws, the Code and the rules of any applicable Stock Exchange.

2.3 "Award" means the grant of Restricted Stock or an Option to an Employee or Consultant.

2.4 "Award Agreement" means a written agreement between the Company and a Participant relating to an Award under the Plan.

2.5 "Board" means the Board of Directors of the Company.

2.6 "Cause" means wilful misconduct with respect to, or that is harmful to, the Company or any of its affiliates including, without limitation, dishonesty, fraud, unauthorized use or disclosure of confidential information or trade secrets or other misconduct (including, without limitation, conviction for a felony), in each case as reasonably determined by the Administrator.

2.7 "Change in Control" shall mean any of the following:

(a) the acquisition of securities of the Company representing more than 50% of the combined voting power of the Company' s then outstanding securities by any person or group of persons, except a Permitted Shareholder (as defined below), acting in concert. A "Permitted Shareholder" means a holder, as of the date of this Agreement, of voting capital stock of the Company; (b) a consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company' s outstanding capital stock are converted into cash, securities or other property, other than a consolidation or merger of the Company in which the Company' s shareholders immediately prior to the consolidation or merger have the same proportionate ownership of voting capital stock of the surviving corporation immediately after the consolidation or merger;

(c) the sale, transfer or other disposition of all or substantially all of the assets of the Company; or

(d) in the event that the shares of voting capital stock of the Company are traded on an established securities market: a public announcement that any person has acquired or has the right to acquire beneficial ownership of securities of the Company representing more than 50% of the combined voting power of the Company' s then outstanding securities,

and for this purpose the terms "person" and "beneficial ownership" shall have the meanings provided in Section 13(d) of the Exchange Act or related rules promulgated by the Securities and Exchange Commission; or the commencement of or public announcement of an intention to make a tender offer or exchange offer for securities of the Company representing more than 50% of the combined voting power of the Company' s then outstanding securities.

2.8 "Code" means the Internal Revenue Code of 1986, as amended.

2.9 "Committee" means a committee of Directors designated by the Board to administer the Plan. To the extent Rule 16b-3 and/or Code Section 162(m) apply to the Company, the Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3, and each member of the Committee shall be an "outside director" within the meaning of Section 162(m) of the Code. The Company expects to have the Plan administered in accordance with the requirements for the award of "qualified performance-based compensation" within the meaning of Section 162(m) of the Code.

2.10 "Common Stock" means the Common Stock of the Company.

2.11 "Company" means Big Sky Energy Corporation, a Nevada corporation.

2.12 "Consultant" means any person, including an advisor, an advisory board member or director, who is engaged by the Company or any Parent or Subsidiary to render services.

2.13 "Continuous Status as an Employee or Consultant" means the absence of any interruption or termination of service as an Employee or Consultant. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Administrator, provided that such leave is for a period of not more than ninety (90) days, unless re-employment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) transfers between locations of the Company or between the Company, its Subsidiaries or their respective successors. For purposes of this Plan, a change in status from an Employee to a Consultant or from a Consultant to an Employee will not constitute an interruption of Continuous Status as an Employee or Consultant.

2.14 "Disability" means permanent and total disability as defined in Code section 22(e)(3).

2.15 "Employee" means any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company, with the status of employment determined based upon such minimum number of hours or periods worked as shall be determined by the Administrator in its discretion, subject to any requirements of the Code. The payment of a director' s fee by the Company to a director shall not be sufficient to constitute "employment" of such director by the Company.

2.16 "Exchange Act" means the Securities Exchange Act of 1934, as amended.

2.17 "Fair Market Value" means, as of any date, the fair market value of Common Stock determined as follows:

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(a) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market or Small Cap Market of the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ"), its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange, or the exchange with the greatest volume of trading in Common Stock for the market trading day on the date of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(b) If the Common Stock is quoted on the NASDAQ Over the Counter Bulletin Board or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock for the market trading day on the date of determination, as reported in The Wall Street Journal, Bloomberg or such other source as the Administrator deems reliable; or

(c) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

2.18 "Good Reason" means the occurrence of any of the following events or conditions without the Participant' s consent:

(a) a change in the Participant' s status, title, position or responsibilities (including reporting responsibilities) that, in the Participant' s reasonable judgment, represents a substantial reduction in the status, title, position or responsibilities as in effect immediately prior thereto;

(b) a significant reduction in the Participant' s annual base salary that is not part of a Company-wide reduction of salaries;

(c) the Company' s requiring the Participant to be based at any place outside a 50-mile radius of his or her place of employment prior to a Change in Control, except for reasonably required travel on the Company' s business that is not materially greater than such travel requirements prior to the Change in Control; or

(d) the Company' s failure to (i) continue in effect any material compensation or benefit plan (or the substantial equivalent thereof) in which the Participant was participating at the time of a Change in Control, including, but not limited to, the Plan, or (ii) provide the Participant with compensation and benefits at least equal (in terms of benefit levels and/or reward opportunities) to those provided for under each employee benefit plan, program and practice as in effect immediately prior to the Change in Control (or as in effect following the Change in Control, if greater).

2.19 "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable Option Agreement.

2.20 "Nonqualified Stock Option" means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable Option Agreement.

2.21 "Option" means a stock option granted pursuant to the Plan.

2.22 "Option Agreement" means a written option agreement between the Company and an Optionee.

2.23 "Optioned Stock" means the Common Stock subject to an Option.

2.24 "Optionee" means an Employee or Consultant who receives an Option.

2.25 "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code, or any successor provision.

2.26 "Participant" means an Employee or Consultant designated to be granted an Award under the Plan.

2.27 "Plan" means this Big Sky Stock Award Plan.

2.28 "Reporting Person" means an officer, director, or greater than ten percent (10%) shareholder of the Company within the meaning of Rule 16a-2 under the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

2.29 "Restricted Stock" means Common Stock awarded to a Participant under this Plan, subject to applicable restrictions.

2.30 "Restricted Stock Agreement" means a written restricted stock agreement between the Company and the Restricted Stock Holder.

2.31 "Restricted Stock Award" means the grant of Restricted Stock pursuant to the Plan.

2.32 "Restricted Stock Holder" means a Participant who receives Restricted Stock pursuant to the Plan.

2.33 "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act, as the same may be amended from time to time, or any successor provision.

2.34 "Securities Act" means the Securities Act of 1933, as amended.

2.35 "Share" means a share of the Common Stock, as may be adjusted as permitted under the Plan.

2.36 "Stock Exchange" means any stock exchange or consolidated stock price reporting system on which prices for the Common Stock are quoted at any given time.

2.37 "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code, or any successor provision.

SECTION 3. STOCK SUBJECT TO THE PLAN

Subject to the provisions for adjustment under the terms of this Plan, the maximum aggregate number of shares that may be optioned and sold under the Plan shall be the equivalent of no more than **Twenty percent (20%) of the issued and outstanding shares of the Company, from time to time.** The shares may be authorized, but un-issued, or reacquired Common Stock. If an Award shouldexpire or become un-exercisable for any reason without having been exercised in full, the un-purchased Shares that were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. In addition, any shares of Common Stock which are retained by the Company upon exercise of an Award in order to satisfy the exercise price for such Award or any withholding taxes due with respect to such exercise shall be treated as not issued and shall continue to be available under the Plan. Shares repurchased by the Company pursuant to any repurchase right, which the Company may have, shall not be available for future grant under the Plan. Notwithstanding the foregoing, the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed **Twenty percent (20%) of the issued and outstanding shares of the Company, from time to time**, subject to adjustment as provided in the Plan and subject to the provisions of Section 422 or 424 of the Code or any successor provision.

SECTION 4. ADMINISTRATION OF THE PLAN

4.1 Powers of the Administrator. Subject to the provisions of the Plan and, in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any Stock Exchange, the Administrator shall have the authority, in its discretion:

(a) to determine the Fair Market Value of the Common Stock, in accordance with the provisions of the Plan;

(b) to select the Consultants and Employees to whom Awards may from time to time be granted hereunder;

(c) to determine whether and to what extent Awards are granted hereunder;

(d) to determine the number of shares of Common Stock to be covered by each such Award granted hereunder;

(e) to approve forms of agreement for use under the Plan;

(f) to determine the number of shares of Restricted Stock to be granted hereunder;

(g) to construe and interpret the terms of the Plan and Awards granted under the Plan;

(h) to determine vesting schedules;

(i) to determine whether and under what circumstances an Award may be settled in Common Stock or other consideration instead of cash; and

(j) to make any other determination and take any other action that the Administrator deems necessary or desirable for the administration of the Plan.

4.2 Effect of Administrator' s Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Participants.

4.3 Administration Pursuant to Section 162(m). The Company expects to have the Plan administered in accordance with the requirements for the award of "qualified performance-based compensation" within the meaning of Section 162(m) of the Code, as applicable.

SECTION 5. ELIGIBILITY FOR AWARDS

5.1 Recipients of Grants. Restricted Stock and Nonqualified Stock Options may be granted to Employees, Officers, Directors and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Award may, if he or she is otherwise eligible, be granted additional Awards.

5.2 Type of Award. Each Award shall be designated in the Award Agreement as either an Incentive Stock Option or a Nonqualified Stock Option, or as Restricted Stock. If not so designated, the Award will be treated as a Nonqualified Stock Option. Notwithstanding any such designations, to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options shall be treated as Nonqualified Stock Options. For purposes of this requirement, Incentive Stock Options shall be taken into account in the order in which they

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were granted, and the Fair Market Value of the Shares subject to an Incentive Stock Option shall be determined as of the date of the grant of such Option.

SECTION 6. AWARDS OF OPTIONS

6.1 Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement. However, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

6.2 Option Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Administrator, except that (i) in the case of an Incentive Stock Option that is granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than one hundred ten percent (110%) of the

Fair Market Value per Share on the date of grant, and (ii) in the case of an Incentive Stock Option that is granted to any other Employee, the per Share exercise price shall be no less than one hundred percent (100%) of the Fair Market Value per Share on the date of grant.

6.3 Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (i) cash or check, (ii) cancellation of indebtedness of the Company to Optionee, (iii) promissory note (subject to approval by the Company), (iv) surrender of other Shares that (A) have been owned by Optionee for more than six months on the date of surrender or such other period as may be required to avoid a charge to the Company' s earnings, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of Shares to be purchased by Optionee as to which such Option shall be exercised, (v) if there is a public market for the Shares and they are registered under the Securities Act, delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the aggregate exercise price and any applicable income or employment taxes, (vi) any combination of the foregoing methods of payment, or (vii) such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company or result in the recognition of compensation expense (or additional compensation expense) for financial reporting purposes.

6.4 Vesting of Options

(a) Vesting Schedule. No Option will be exercisable until it has vested. The Administrator will specify the vesting schedule for each Option at the time of grant of the Option, prior to the provision of services with respect to which such Option is granted; provided that if no vesting schedule is specified at the time of grant, the Option shall vest in full over the course of four years from date of grant as follows: twenty five percent (25%) of the total number of Shares granted under the Option shall vest after one (1) year of Continuous Status as an Employee or Consultant; twenty-five percent (25%) of the original number of Shares granted under the Option on the second anniversary of the date of Grant; twenty-five percent (25%) of the original number of Shares granted under the Option on the third anniversary of the date of Grant, and twenty-five percent (25%) of the original number of Shares granted under the Option on the fourth anniversary of the date of Grant. The Administrator may specify a vesting schedule for all or any portion of an Option based on the achievement of performance objectives with respect

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to the Company, a Parent or Subsidiary, and/or Optionee, and as shall be permissible under the terms of the Plan.

(b) Acceleration of Vesting. The Administrator may accelerate the vesting of one or more outstanding Options at such times and in such amounts as it determines in its sole discretion. The vesting of Options may also be accelerated in connection with a corporate transaction, as described below.

6.5 Procedure for Exercise; Rights as a Shareholder. An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and the Company has received full payment for the Shares with respect to which the Option is exercised. An Option may not be exercised for a fraction of a Share. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment as described above. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 9 of the Plan. Exercise of an Option in any manner shall result in a decrease in the number of Shares that thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

6.6 Exercises After Termination of Employment or Consulting Relationship

(a) Termination of Employment or Consulting Relationship. Except as otherwise provided herein, in the event of termination of a Participant' s Continuous Status as an Employee or Consultant with the Company, such Participant may exercise his or her Option to the extent that Participant was entitled to exercise it at the date of such termination, but only within twelve (12) months after the date of such termination, or such other longer period of time as is determined by the Administrator, provided that no Option which is exercised after such three month period will be treated as an Incentive Stock Option, and that in no event may an Option be exercised later than the expiration date of the term of such Option as set forth in the Option Agreement. To the extent that Participant was not entitled to exercise the Option at the date of such termination, or if Participant does not exercise such Option to the extent so entitled within the time specified herein, the Option should terminate. No termination shall be deemed to occur and this paragraph shall not apply if (i) Participant is a Consultant who becomes an Employee; or (ii) Participant is an Employee who becomes a Consultant; or (iii) Participant transfers employment among the company and its subsidiaries.

(b) Disability of Participant. Notwithstanding the provisions set forth above, in the event of termination of a Participant' s Continuous Status as an Employee or Consultant as a result of his or her Disability, Participant may, but only within twelve (12) months (or, with respect to a Nonqualified Stock Option, such other longer period of time, if any, as is determined by the Administrator) after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent he or she is otherwise entitled to exercise it at the date of such termination. To the extent that Participant was not entitled to exercise the Option at the date of termination, or if Participant does not exercise such Option to the extent so entitled within the time specified herein, the Option should terminate.

(c) Death of Participant. In the event of the death of a Participant during the period of Continuous Status as an Employee or Consultant, or within thirty (30) days following the termination of Participant' s Continuous Status as an Employee or Consultant, the Option may

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be exercised, at any time within twelve (12) months (or, with respect to a Nonqualified Stock Option, such other longer period of time, if any, as is determined by the Administrator) after the date of death (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), by Participant' s estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent Participant was entitled to exercise the Option at the date of death or, if earlier, the date of termination of the Continuous Status as an Employee or Consultant. To the extent that Participant was not entitled to exercise the Option at the date of death or termination, as the case may be, or if Participant or the Participant' s estate (or, as applicable, heirs, personal representative, executor or administrator) does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

6.7 Rule 16b-3. Options granted to Reporting Persons shall comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required hereunder to qualify for the maximum exemption for Plan transactions.

6.8 Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions as the Administrator shall establish and communicate to Optionee at the time that such offer is made.

SECTION 7. RESTRICTED STOCK AWARDS

7.1 Grant of Restricted Stock Awards. Each Restricted Stock Award (i) shall be for a number of Shares determined by the Administrator, and (ii) shall require the Restricted Stock Holder to maintain Continuous Status as an Employee or Consultant for a restricted period determined by the Administrator in order for the restrictions related to such Shares to lapse. The restrictions and the duration of the restricted period will be set forth in the Restricted Stock Agreement. The restricted period need not be the same for all Shares subject to the Restricted Stock Award. For vesting purposes, credit for service as an Employee or Consultant prior to the actual grant of the Restricted Stock Award may be given as part of the Restricted Stock Award.

7.2 Consideration for Restricted Stock Awards. Restricted Stock may be sold or awarded under the Plan for such consideration as the Administrator may determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes (subject to approval by the Plan Administrator), past services and future services.

7.3 Rights of a Restricted Stock Holder. Except for such restrictions, and subject to provisions under the Plan relating to adjustments to Awards, conditions on issuance of shares, and termination of the Participant' s relationship with the Company, a Restricted Stock Holder shall have all the rights of a shareholder, including but not limited to the right to receive all cash dividends paid on such Restricted Stock and the right to vote such Restricted Stock. Dividends paid in securities or other property or stock received in connection with a stock split or other distribution with respect to the Restricted Stock shall be subject to the same restrictions as the Restricted Stock.

7.4 Vesting of Restricted Stock. The restrictions imposed herein shall lapse, and the Participant' s rights in the Restricted Stock shall vest, in accordance with the schedule provided in the Restricted Stock Agreement. If not so specified in such Restricted Stock Agreement, the restrictions shall lapse according to the following schedule: restrictions on 25% of the Shares shall lapse after one year of Continuous Service as an Employee or Consultant; the remaining 75% of Shares shall vest pro rata monthly on the last day of each calendar month over the following 36 months of Continuous Service as an Employee or Consultant. Upon the vesting of the Restricted Stock awarded under the Plan, the Restricted Stock Holder shall be entitled to receive a certificate representing the number of shares of Restricted Stock, as to which restrictions no longer apply, with the remaining shares of Restricted Stock subject to the foregoing restrictions. The Restricted Stock Holder shall execute a new stock power with respect to any remaining Shares, which are restricted. The Restricted Stock Holder shall be entitled to receive certificates for any Restricted Stock as to which the Restricted Stock Holder's

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interest has become vested as provided herein, and the Company shall issue the Restricted Stock Holder such certificates.

7.5 Termination of Employment or Consulting Relationship. If a Restricted Stock Holder ceases to maintain his or her Continuous Status as an Employee or Consultant for any reason (other than death or Disability), Restricted Stock theretofore awarded to such Restricted Stock Holder and which at the time of such termination of his or her Continuous Status as an Employee or Consultant is subject to the restrictions imposed by this Section shall, upon such termination of his or her Continuous Status as an Employee or Consultant, be forfeited and returned to the Company and the Restricted Stock Holder shall have no further claim to or interest in such Restricted Stock. If a Restricted Stock Holder ceases to maintain his or her Continuous Status as an Employee or Consultant by reason of death or Disability, such Restricted Stock awarded to such Restricted Stock Holder which, at the time of such termination of his or her Continuous Status as an Employee or Consultant, is subject to the restrictions imposed by this Section, shall be free of restrictions and shall not be forfeited.

7.6 Issuance of Restricted Stock. The Administrator shall request of the Company that each certificate in respect of Restricted Stock awarded under the Plan be registered in the name of the Restricted Stock Holder. The Restricted Stock Holder shall provide a stock power endorsed in blank to the Company and any certificate representing the Restricted Stock shall bear the following (or a similar) legend:

"The transferability of this certificate and the securities represented hereby are subject to the terms and conditions (including forfeiture) contained in the Big Sky Stock Award Plan of Big Sky Energy Corporation Copies of such Plan are on file in the offices of Big Sky Energy Corporation"

7.7 Adjustments to Restricted Stock Awards. The Administrator may, in anticipation of a Change in Control, make such adjustments in the terms and conditions of outstanding Restricted Stock, as the Administrator in its sole discretion determines are equitably warranted under the circumstances, including declaring that any Restricted Stock Award not vested shall become fully vested. The Administrator in its discretion shall have the right to accelerate the time at which the Restricted Stock shall become vested and may do so as to one or more Restricted Stock Holders.

7.8 Restricted Stock Agreement. At the time of a Restricted Stock Award, the Participant shall enter into a Restricted Stock Agreement with the Company agreeing to the terms and conditions of the Restricted Stock Award and such other matters, as the Company shall in its sole discretion determine.

7.9 Return of Unvested Restricted Stock. Any Shares of Restricted Stock as to which rights have not vested in accordance with this Plan and as to which a Restricted Stock Holder no longer has any rights under this Plan shall be returned to the Company which thereafter shall have all rights of ownership and which may use such shares for further Awards under this Plan.

SECTION 8. STOCK WITHHOLDING TO SATISFY WITHHOLDING TAX OBLIGATIONS

8.1 Withholding Tax. At the discretion of the Administrator, Participants may satisfy withholding obligations as provided in this paragraph. When a Participant incurs tax liability in connection with an Award, which tax liability is subject to tax withholding under applicable tax laws (including, without limitation, income and payroll withholding taxes), and Participant is obligated to pay the Company an amount required to be withheld under applicable tax laws, Participant may satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, (b) out of Participant' s current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares that (i) have been owned by Participant for more than six (6) months on the date of surrender or such other period as may be required to avoid a charge to the Company' s earnings, and (ii) have a fair market value on the date of surrender

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equal to (or less than, if other consideration is paid to the Company to satisfy the withholding obligation) Participant' s marginal tax rate times the ordinary income recognized, plus an amount equal to the Participant' s share of any applicable payroll withholding taxes, or (d) if permitted by the Administrator, in its discretion, by electing to have the Company withhold from the Shares to be issued upon exercise of the Award, if any, that number of Shares having a Fair Market Value equal to the amount required to be withheld. For this purpose, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date"). In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company or result in the recognition of compensation expense (or additional compensation expense) for financial reporting purposes.

8.2 Reporting Persons. Any surrender by a Reporting Person of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Award must comply with the applicable provisions of Rule 16b-3 and shall be subject to such additional conditions or restrictions as may be required hereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

8.3 Form of Election. All elections by a Participant to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following additional restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Award as to which the election is made;

(c) if Participant is a Reporting Person, the election must comply with the applicable provisions of Rule 16b-3 and shall be subject to such additional conditions or restrictions as may be required hereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions; and

(d) all elections shall be subject to the consent or disapproval of the Administrator.

8.4 Deferral of Tax Date. In the event the election to have Shares withheld is made by a Participant and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, Participant shall receive the full number of Shares with respect to which the Award is exercised but such Participant shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

SECTION 9. ADJUSTMENTS UPON CHANGES

IN CAPITALIZATION; CORPORATE TRANSACTIONS

9.1 Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Option, and the number of Shares that have been authorized for issuance under the Plan but as to which no Awards have yet been granted or that have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per Share covered by each such outstanding Award, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." The Administrator, whose determination, shall make such adjustment in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by

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reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

9.2 Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify Participants at least fifteen (15) days prior to such proposed action. To the extent not previously exercised, Awards will terminate immediately prior to the consummation of such proposed action.

9.3 Change in Control Transactions. Except as otherwise provided in the instrument that evidences the Option, in the event of any Change in Control, each Option that is at the time outstanding shall automatically accelerate so that each such Option shall, immediately prior to the specified effective date for the Change in Control, become 100% vested. Notwithstanding the foregoing, vesting of shares subject to such Option shall not so accelerate if and to the extent that (i) in the opinion of the Company' s accountants, it would render unavailable "pooling of interest" accounting for a transaction that would otherwise qualify for such accounting treatment; or (ii) such Option is, in connection with the Change in Control, either to be assumed by the successor corporation or parent thereof or to be replaced with a comparable award for the purchase of shares of the capital stock of the successor corporation or its parent corporation. If the Administrator determines that such an assumption or replacement will be made, the Administrator shall give notice of such determination to the Participants and of the provisions of such assumption or replacement, and any adjustments made (i) to the number and kind of shares subject to the outstanding Awards (or to the options in substitution therefore), (ii) to the exercise prices, and/or (iii) to the terms and conditions of the stock options. Any such determination shall be made in the sole discretion of the Administrator and shall be final, conclusive and binding on all Participants. If such Award is assumed or replaced in the Change in Control and is not otherwise accelerated at that time, vesting of all of the unvested shares subject to such Award shall be accelerated in the event the Participant' s employment or services should subsequently terminate within six months following such Change in Control, unless such employment or services are terminated by the Company for Cause or by the Participant voluntarily without Good Reason. All unexercised Awards shall terminate and cease to remain outstanding immediately following the consummation of the Change in Control, except to the extent assumed by the successor corporation or an affiliate thereof.

9.4 Certain Distributions. In the event of any distribution to the Company' s shareholders of securities of any other entity or other assets (other than dividends payable in cash or stock of the Company) without receipt of consideration by the Company, the Administrator may, in its discretion, appropriately adjust the price per share of Common Stock covered by each outstanding Option to reflect the effect of such distribution.

SECTION 10. GENERAL

10.1 Non-Transferability Of Options. Unless otherwise provided under the Option Agreement, Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution, and may be exercised or purchased during the lifetime of Optionee, only by Optionee.

10.2 Time Of Granting Options. The date of grant of an Award shall, for all purposes, be the date on which the Administrator makes the determination granting such Award, or the Administrator determines such later date as. Notice of the determination shall be given to each Employee or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

10.3 Conditions Upon Issuance Of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation,

the Securities Act, the Exchange Act, the rules and regulations promulgated there under, and the requirements of any Stock Exchange. As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is

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required by law.

10.4 Amendment and Termination. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made that would impair the rights of any Participant under any grant theretofore made, unless mutually agreed otherwise, which agreement must be in writing and signed by Participant and the Company. In addition, to the extent necessary and desirable to comply with Rule 16b-3 or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of any Stock Exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

10.5 Reservation Of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company' s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

10.6 Information To Optionees. At the time of issuance of any securities under the Plan, the Company shall provide to Optionee a copy of the Plan and a copy of any agreement(s) pursuant to which securities granted under the Plan are issued.

10.7 Employment Relationship. The Plan shall not confer upon any Participant any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with such Participant' s right or the Company' s right to terminate his or her employment or consulting relationship at any time, with or without cause.

10.8 Term Of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company. It shall continue in effect for a term of ten (10) years unless sooner terminated as permitted herein.

10.9 Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any Stock Exchange upon which the Common Stock is listed and in accordance with the Company' s bylaws. In the event such approval is not obtained in a timely manner, no Option granted hereunder shall be treated as an Incentive Stock Option.

Approved by Shareholders June 29, 2001.

Amended and approved by the Nominating and Compensation Committee on June 24, 2004. Approved by Shareholders December 3, 2004.

Execution Copy

Big Sky Energy Corporation

Suite 311, 840-6th Avenue SW

Calgary, Alberta
Canada, T2P 3E5

Effective as of December 9, 2007

STRICTLY PRIVATE AND CONFIDENTIAL

M.H. Financial Management Limited
c/o Mr. Matthew Heysel P.Eng.

Re: ***Consulting Agreement***

Dear Mr. Heysel, P.Eng.:

We wish to confirm our discussions concerning Big Sky Energy Corporation (referred to herein as the "Company") retaining the services of M.H. Financial Management Limited (the "Provider"), through which you will fulfill the duties and accept certain positions as an Executive officer of the Company as more specifically described below in this Consulting Agreement (referred to herein as this "Agreement") on the terms and conditions set forth below. Throughout this document, the term "Executive" shall mean Mr. Heysel P.Eng., whose time and services are provided by the Provider.

1. POSITION AND RESPONSIBILITIES

Executive shall serve the Company in the capacity of Executive Chairman and shall fully and faithfully perform such duties and exercise such powers as are incidental to such position including those duties set out in the following paragraphs in connection with the business of the Company, its affiliates and joint ventures and such other compatible duties and powers as may from time to time be assigned to the Executive by the board of directors of the Company (the "Board of Directors").

Executive is to have responsibility for the supervision, and direction of the Company with the obligation, duty, authority, and power to do all acts and things as are customarily done by persons holding the position of Executive in companies/corporations of similar size to the Company and to do all acts and things as are reasonably necessary for the efficient and proper operation and development of the Company.

Such responsibilities shall include, but shall not be limited to, (i) reporting to the Board of Directors, (ii) supervising and directing the senior officers of the Company and the

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officers of the Company' s joint ventures, (iii) working closely with the President and CEO, the Co-Chairman, the CFO and COO and senior officers to represent the Company' s interests in its existing joint ventures and to increase the Company' s global oil and gas portfolio, (iv) supported by the senior officers, developing work programs for Company' s existing oil and gas joint ventures and ensuring that these programs and budgets are met and the Company' s corporate policies and procedures are adhered to and (v) supported by the senior officers, increasing the

Company' s stakes in its existing joint ventures and acquiring development/production assets that would increase the Company's reserves base in the short to medium term.

Executive shall fully and faithfully perform such duties and fulfill such obligations, as are commensurate with his appointment as Executive. Executive shall devote full attention using his best efforts to apply his skill and experience to perform his duties hereunder and promote the interests of the business and projects of the Company.

Executive places on record that he has other oil and gas interests and holds positions in other public and private oil and gas companies. The Executive further acknowledges that these interests and positions do not interfere with Executive' s ability to carry out his responsibilities hereunder and do not contravene the requirements of this Agreement.

The Executive acknowledges that he may be required to work beyond the normal work week for the proper performance of his duties, and that he shall not receive further remuneration in respect of such additional hours. The parties each agree that the nature of the Executive' s position is such that his working time cannot be measured and, accordingly, that the appointment falls within the scope of regulation 20 of the Working Time Regulations 1998.

The Executive shall perform his duties at the liaison office of the Company in Istanbul, Turkey or such other location as the Company may reasonably require for the proper performance and exercise of his duties. The Executive agrees to travel on the Company' s business both within Kazakhstan or anywhere else in the world as may be required for the proper performance of his duties under this Agreement.

2. TERM

The term of this Agreement (the "Term") shall be effective for a three-year period from December 9, 2007 and shall continue until December 8, 2010 or such earlier date as this Agreement may be terminated in accordance with the provisions of this Agreement or by Executive' s resignation. This Agreement and the continuation of Executive' s services to the Company, along with his positions and titles with the Company and its affiliates, may be renewed at the end of the said Term on conditions mutually acceptable to the Provider and the Company; however, if the same are not renewed, this Agreement shall terminate on December 8, 2010 without further requirement of notice or pay in lieu thereof. The Company will provide notice of at least ninety (90) days if it intends to renew this Agreement.

3. COMPENSATION

a) **Fees:** For services rendered by Executive during the term of this Agreement, the Provider shall be paid a signing bonus of US$ 200,000, payable in three installments, one-third to be paid immediately upon execution of this Agreement, one-third to be paid by January 15, 2008, and one-third to be paid by February 15, 2008. In addition, the Provider shall be entitled to a monthly fee of US$ 34,500 for the first year, US$ 37,500 for the second year and US$ 40,000 for the third year. The monthly fee will be paid monthly on or around the 26th day of the month into the Provider' s nominated bank account(s). Such fee shall be reviewed annually and may be increased at the sole discretion of the Board of Directors taking into account, among other things, individual performance and general business conditions.

Company and Executive acknowledge that the services of the Executive are to be supplied on the basis that the compensation paid to the Executive for services performed will be subject to applicable taxation, if any. GST, if applicable, will be paid by the Company.

b) **Stock Options:**

(1) In consideration of the Executive' s agreement to assume the responsibilities as described above as the Company' s Executive Chairman, the Company grants to the Provider options to purchase 8 million shares of the Company' s common stock at an exercise price of $0.10 per share (the "Options"). The Options are in lieu of and replace any stock options granted earlier to the Provider. The Options shall be governed by the Company' s form of Stock Option Agreement, which shall be executed either simultaneously herewith or shortly thereafter. The Company and the Provider agree that the Options shall be issued and deemed to be "non-qualified deferred compensation," as such term is defined by Section 409A of the US Income Tax Act.

(2) The Options shall vest in accordance with the following schedule:

(i) 20% of the Options shall vest immediately;

(ii) 10% of the Options shall vest upon the Company' s common stockachieving a per share price of US$ 0.35 on the Over the Counter Bulletin Board quotation system (OTC/BB) for a minimum of five consecutive trading days;

(iii) 25% of the Options shall vest upon the Company' s common stock achieving a per share price of US$ 0.50 on the Over the Counter Bulletin Board quotation system (OTC/BB) for a minimum of five consecutive trading days; and

(iv) 45% of the Options shall vest upon the Company' s common stock achieving a per share price of US$ 1.00 on the Over the Counter Bulletin Board quotation system (OTC/BB) for a minimum of five consecutive trading days.

(3) The Options shall be exercisable for a period of three (3) years from the date of vesting and have an exercise price of $0.10 per share.

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4. BENEFITS, PERQUISITES AND BUSINESS EXPENSES

a) The Provider shall be entitled to participate in any future Stock Option Plan of Company on such terms as may be determined by the Board of Directors.

b) The Provider shall be entitled to be reimbursed for all reasonable expenses incurred by it or the Executive in connection with the conduct of the business of the Company pursuant to this Agreement. Such expenses shall be reimbursed within thirty (30) days following presentation of sufficient evidence of such expenditures, provided such expenditures are in accordance with the Company' s Staff Travel Policy as may be amended from time to time.

c) Executive shall be entitled to air travel in accordance with the Company' s Staff Travel Policy, as may be amended from time to time, whilst on Company business.

d) The Company shall provide the Executive with a comprehensive health insurance and dental plan.

e) The Executive shall be entitled to 5 weeks of paid vacation per annum.

f) The Executive shall be entitled to US$5,000 per month for administrative assistance.

5. TERMINATION

a) **Termination by the Company without cause:** The Company shall be entitled to terminate this Agreement at any time without cause by giving the Provider one (1) month prior written notice of the termination but the Company shall be required to continue to pay the Provider' s monthly fee payments until the earlier to expire of 12 months from the date of such termination and the then current Term of this Agreement. In the event of termination of this Agreement hereunder without cause, Executive shall be immediately relieved of all of his responsibilities and authorities as an officer, director and employee of the Company and as an officer, director and employee of each and every affiliate in the Company effective as of the date of termination hereof fixed by the Company. In the event of termination without cause, rights and benefits of the Executive under the employee benefits plans and programs of the Company shall continue until expiry of the then current Term of this Agreement. If any such benefit or program cannot be so continued, Executive shall be entitled to receive a cash payment equal to the value of such benefits for such period.

b) **Termination by the Company for cause:** The Company shall be entitled to terminate this Agreement for cause at any time without notice and without any payment in lieu of notice. In the event of termination for cause, the Company' s obligations hereunder shall immediately cease and terminate and Executive shall be immediately relieved of all of his responsibilities and authorities as an officer, director and employee of the Company and as an officer, director and employee of each and every affiliate in the Company and in such an event there will be no continued monthly fee payments by the

Company to the Provider. For purposes of this paragraph 5(b), "cause" shall include, without limitation, the following circumstances,

i) The Provider or the Executive has committed a criminal offence involving moral turpitude or has improperly enriched himself at the expense of the Company;

ii) Executive, in carrying out his duties hereunder, (i) has been wilfully and grossly negligent, or (ii) has committed wilful and gross misconduct or, (iii) has failed to comply with a lawful instruction or directive from the Board of Directors (and which is not otherwise cured within thirty (30) days of notice of such breach);

iii) The Provider or the Executive has breached a material term of this Agreement (and which is not cured within thirty (30) days);

iv) The Provider becomes bankrupt or in the event a receiving order (or any analogous order under any applicable law) is made against the Provider or in the event the Provider makes any general disposition or assignment for the benefit of his creditors; or

v) Executive shall be diagnosed as being afflicted by chronic alcoholism or drug addiction.

Termination of this Agreement for cause shall be effective upon the date of the notice of termination given to the Provider or Executive and the lapse of any applicable cure period without remedy of the matters set out in such notice.

c) **Disability:** This Agreement shall terminate automatically upon written notice from the Company in the event of Executive' s absence or inability to render the services required hereunder due to disability, illness, incapacity or otherwise for an aggregate of ninety (90) days during any twelve (12) month period, provided that such disability, illness, incapacity or other cause has not occurred during the execution of the business of the Company by the

Executive. In the event of any such absence or inability, the Provider shall be entitled to receive the compensation provided for herein for the first ninety (90) days thereof, whereafter it shall only be entitled to receive such compensation, if any, as may be determined by the Board of Directors. The Company shall also provide the Executive with customary Disability Insurance at no cost to the Provider or the Executive.

d) **Death:** In the event of the death of Executive during the term of this Agreement, the Provider' s monthly fee payments shall continue to be paid to the Provider through the end of the third month following the month in which Executive' s death occurs.

e) **Effect of Termination:** The Provider and the Executive each agree that, upon termination of this Agreement for any reason whatsoever, Executive shall thereupon be

deemed to have immediately resigned any position that Executive may have as an officer, director or employee of the Company and each and every affiliate of the Company. In such event, Executive shall, at the request of the Company or any affiliate in the Company, forthwith execute any and all documents appropriate to evidence such resignation. Neither the Provider nor the Executive shall be entitled to any payment in respect of such resignation in addition to those provided for herein, except as expressly provided for pursuant to any other agreement entered into with any affiliate in the Company.

f) **Survival of Terms:** It is expressly agreed that notwithstanding termination of this Agreement for any reason or cause or in any circumstances whatsoever, such termination shall be without prejudice to the rights and obligations of the Provider, the Executive and the Company respectively in relation to the time up to and including the date of termination and the provisions of paragraphs 3(b), 7 and 8 of this Agreement, all of which shall remain and continue in full force and effect.

6. CHANGE OF CONTROL

a) **Definitions**: The following terms shall have the meanings set forth below: "Change of Control" shall mean the occurrence of: (A) the acquisition of shares of Company and/or

> securities ("Convertible Securities") convertible into, exchangeable for or representing the right to acquire shares of Company as a result of which a person, group of persons or persons acting jointly or in concert, or persons associated or affiliated within the meaning of the U.S. Securities Act of 1933 with any such person, group of persons or any of such persons acting jointly or in concert (collectively, the "Acquirers"), beneficially own, directly or indirectly, shares of Company and/or Convertible

Securities such that, assuming only the conversion, exchange or exercise of the Convertible Securities beneficially owned, directly or indirectly, by the Acquirers, the Acquirers would beneficially own, directly or indirectly, shares that would entitle the holders thereof to cast more than 51% of the votes attaching to all shares in the capital of Company that may be cast to elect directors of Company; or

(B) the election at any meeting of shareholders

of Company of a majority of directors to the Board of Directors of Company who are not recommended by management.

b) **Rights Upon Change in Control**:

If a Change in Control occurs:

i) then, for a period of six (6) months following the date of such Change of Control, the Provider shall have the right to elect that the Change of Control is a termination of this Agreement by the Company without cause. If the Provider notifies the Company of this election in writing, or in the event that the Company shall terminate this Agreement without cause during such period of six (6) months following the date of the Change of Control, the Provider shall be entitled to receive and the Company shall pay to the Provider a severance payment equal to the greater of (a) the amount of compensation that the Provider would have earned under this Agreement during the remaining term of this Agreement immediately prior to such Change of Control or (a) six (6) months of fee payments at the rate of compensation set forth in paragraph 3 above. The payments set out in this paragraph 6 are in addition to any other rights provided hereunder with respect to termination of this Agreement without cause. If the Provider does not elect termination, this Agreement will continue in full force and effect in accordance with its terms.

7. **Additional Rights Upon Change of Control**

a) The Company acknowledges the valuable services that the Provider has provided and will continue to provide to the Company in providing the services of the Executive in his capacity as an officer thereof and an authorized representative thereof.

b) The Company acknowledges that in the event of a change of control of the Company or a sale of all or substantially all of the assets of the Company, there is a possibility that the service of the Provider would no longer be required and that this contract might be terminated.

c) The directors of the Company have determined that it would be in the best interests of the Company to induce the Provider to provide the services of the Executive to the Company by indicating that, in the event of a change of control of the Company, the Provider would have certain automatic and guaranteed rights.

d) In the event of a change of the control of the Company or a sale of all or substantially all of the assets of the Company during the term of this Contract, the

Company agrees that the Provider shall be paid five percent (5%) of the value of the sale of the assets or of the value of the transaction which constitutes a takeover of the Company, as the case may be, such amount to be paid within thirty (30) days of the completion of the sale, as the case may be.

8. NON-COMPETITION AND NON-SOLICITATION

a) The Provider agrees that during the period of this Agreement and for a period of twelve (12) months from the last payment of compensation to the Provider by the Company, the Provider and the Executive shall not engage in or

participate in any entity in the oil and gas industry that competes, directly or indirectly, with the businesses of the Company or any affiliate in the Company, provided, however, that the Provider and Executive shall not be precluded from competing with the business of the Company in the event of a termination of this Agreement as a result of a material breach by the Company of the provisions of this Agreement, or in the event that this Agreement is terminated or deemed to be terminated by the Company without cause (including without limitation, pursuant to paragraph 6 hereof). In particular, the Provider and the Executive agree that for as long as this non-compete provision is in effect their services in connection with the possibility of entering into a contract with Genel Enerji A._. in connection with the Taq Taq oil field in Iraq (the "Genel Deal") will be offered exclusively to the Company and that neither the Provider nor the Executive shall pursue the Genel Deal with anyone other than the Company or assist anyone other than the Company to pursue the Genel Deal.

b) Notwithstanding anything to the contrary contained herein the Provider and Executive may, without being deemed to compete, directly or indirectly, with the businesses of the Company or any affiliate in the Company, own not more than five percent (5%) of any class of the outstanding securities of any corporation listed on a securities exchange or traded in any over-the-counter market.

c) The Provider and Executive agree that for a period of twelve (12) months following the termination hereof for any reason whatsoever, the Provider and Executive will not, whether as principal, agent, consultant, employee, employer, director, officer, shareholder or in any other individual or representative capacity, solicit or attempt to retain in any way whatsoever any of the employees of the Company or of any affiliates in the Company, provided however, that the Provider and Executive shall not be precluded from soliciting or retaining employees of the Company in the event of a termination of this Agreement as a result of a material breach by the Company of the provisions of this Agreement, or in the event that this Agreement is terminated or deemed to be terminated by the Company without cause (including without limitation, pursuant to paragraph 6).

d) It is the desire and the intent of the parties that the provisions of paragraphs 8 and 9 shall be enforceable to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular portion of paragraphs 8 and 9 is adjudicated unenforceable in any jurisdiction

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such adjudication shall apply only in that particular jurisdiction in which such adjudication is made.

9. CONFIDENTIAL INFORMATION

a) The Provider and Executive agree not to disclose, either during the term of this Agreement or at any time for a period of three years thereafter, to any person not employed by the Company or by any affiliate of the Company or not engaged to render services to the Company or to any affiliate in the Company, any trade secrets or confidential information of or relating to the Company or any affiliate of the Company obtained by the Provider or Executive during the term hereof; provided, however, that this provision shall not preclude the Provider or Executive from the use or disclosure of information known generally to the public (other than that which the Provider or Executive may have disclosed in breach of this Agreement) or of information required to be disclosed by law or court order applicable to the Provider or Executive or information authorized to be disclosed by the Board of Directors.

b) The Provider and the Executive also agree that upon termination of this Agreement for any reason whatsoever, Executive will not take, without the prior written consent of the Board of Directors, any drawing, blueprint, specification, report or other document belonging or relating to the Company or to any affiliate in the Company.

10. NOTICES

Any notices, requests, demands or other communications provided for by this Agreement shall be in writing and shall be sufficiently given when and if mailed by registered or certified mail, return receipt requested, postage prepaid, or sent by personal delivery, overnight courier or by facsimile to the party entitled thereto at the address stated at the beginning of this Agreement or at such other address as the parties may have specified by similar notice.

Any such notice shall be deemed delivered on the tenth business day following the mailing thereof if delivered by prepaid post or if given by means of personal delivery on the day of delivery thereof or if given by means of courier or facsimile transmission on the first business day following the dispatch thereof.

11. ASSIGNMENT

Except as herein expressly provided, the respective rights and obligations of the Provider and the Company under this Agreement shall not be assignable by either party without the written consent of the other party and shall, subject to the foregoing, enure to the benefit of and be binding upon the Provider and the Company and their permitted successors or assigns. Nothing herein expressed or implied is intended to confer on any person other than the parties hereto any rights, remedies, obligations or liabilities under or by reason of this Agreement. The Provider is expressly prohibited from fulfilling or attempting to fulfil its any or all of obligations hereunder by providing the services of any person other than the Executive.

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12. APPLICABLE LAW

This Agreement shall be deemed a contract under, and for all purposes shall be governed by and construed in accordance with, the laws of England. Each of the parties hereto hereby irrevocably submits to the non-exclusive jurisdiction of the courts of England with respect to any proceedings brought in respect of this Agreement or the subject matter hereof.

13. AMENDMENT OR MODIFICATION; WAIVER

No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Company (including any authorized officer or committee of the Board of Directors) and is in writing signed by the Provider and by a duly authorized representative of the Company. Except as otherwise specifically provided in this Agreement, no waiver by either party hereto of any breach by the other party of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar breach, condition or provision at the same time or at any prior or subsequent time.

14. **Entire Agreement**

This agreement contains the entire agreement between the parties hereto with respect to the matters herein and supersedes all prior agreements and understandings, oral or written, between the parties hereto, relating to such matters. Notwithstanding the foregoing the Company acknowledges and agrees to honor the terms of the agreement dated Oct. 2, 2007 by and between the Provider and Hillgate Associates Ltd. / Dr. Servet Harunoglu with respect to the sharing of success fees for the Genel deal. These success fees are covered by specific provisions relating to Rights Upon Change of Control as set out in Clause 7.

15. GUARANTEES OF PERFORMANCE

a) The Company hereby guarantees to and in favour of the Provider the due and timely performance and payment of all obligations, duties and liabilities of the Company and its affiliates under this Agreement and agrees to perform all

obligations and pay all amounts due hereunder to Executive forthwith upon any breach or failure by the Company or its affiliates in the performance of the terms and conditions hereof.

b) The Executive hereby guarantees to and in favour of the Company the due and timely performance of all obligations, duties and responsibilities of the Provider under this Agreement and agrees to perform all obligations as required hereunder or as the Executive shall be directed by the Company' s Board of Directors.

If you are in agreement with the foregoing terms and conditions, please confirm your acceptance by signing and returning the enclosed duplicate copy of this correspondence.

BIG SKY ENERGY CORPORATION

Per:

Name:Dr. Servet Harunoglu

Title: CEO and President

Accepted and agreed:

M.H. Financial Management Limited,

Per:

Name : Mr. Matthew Heysel P.Eng. President

EXECUTIVE CHAIRMAN

Per:

Mr. Matthew Heysel P.Eng., individually

Dated: December 24, 2007

[Execution Copy]

Big Sky Energy Corporation

750, 440 – 2nd Avenue SW

Calgary, Alberta
Canada, T2P 5E9

Effective as of December 9, 2007

STRICTLY PRIVATE AND CONFIDENTIAL

Hillgate Associates Ltd. c/o Dr. Servet Harunoglu

Re: ***Consulting Agreement***

Dear Dr. Harunoglu:

We wish to confirm our discussions concerning Big Sky Energy Corporation (referred to herein as the "Company") retaining the services of Hillgate Associates Ltd. (the "Provider"), through which you will fulfil the duties and accept certain positions as an executive officer of the Company as more specifically described below in this Consulting Agreement (referred to herein as this "Agreement") by on the terms and conditions set forth below. Throughout this document, the term "Executive" shall mean Dr. Harunoglu, whose time and services are provided by the Provider.

1. **POSITION AND RESPONSIBILITIES**

Executive shall serve the Company in the capacity of Chief Executive Officer and President and shall fully and faithfully perform such duties and exercise such powers as are incidental to such positions including those duties set out in the following paragraph in connection with the business of the Company, its affiliates and joint ventures and such other compatible duties and powers as may from time to time be assigned to the Executive by the board of directors of the Company (the "Board of Directors").

In order to carry out such responsibilities, Executive shall also be appointed as President of the Company' s subsidiaries and indirect or ultimate subsidiaries, or such other position as is mutually agreed and shall be appointed or nominated for appointment as a director of the Company and its subsidiaries and/or affiliates at each meeting of shareholders at which directors are to be elected.

Executive shall have managerial supervision and responsibility for operational, financial and strategic aspects of the business of the Company and any of its subsidiaries and/or affiliates.

Such responsibilities shall include, but shall not be limited to, (i) reporting to the Board of Directors of Big Sky, (ii) supervising and directing the senior officers of the Company and the

other secondees to the Company' s joint ventures, (iii) working closely with the CFO and COO and leading those senior officers reporting directly and indirectly to him, and being responsible for the Company' s interests in its existing joint ventures and to increase the Company' s global oil and gas portfolio, (iv) supported by the senior officers, to develop work programs for Company' s existing oil and gas joint ventures, to ensure that these programs and budgets are met and Company' s corporate policies and procedures are adhered to and (v) supported by the senior officers, to increase Company' s stakes in its existing joint ventures and acquire development/production assets that would increase Company' s reserves base in the short to medium term.

Executive shall fully and faithfully perform such duties and fulfil such obligations, as are commensurate with his appointment as an officer of the Company. Executive shall devote full attention using his best efforts to apply his skill and experience to perform his duties hereunder and promote the interests of the business and projects of the Company. The Company acknowledges that the Executive has other business interests and is holding positions in other public and private companies. The Company further acknowledges that these other interests and positions do not interfere with Executive' s ability to carry out his responsibilities hereunder, and do not otherwise contravene the requirements of this Agreement and that the Executive shall not be precluded from pursuing, acquiring or maintaining similar positions or interests.

The Executive acknowledges that he may be required to work beyond the normal work week for the proper performance of his duties, and that he shall not receive further remuneration in respect of such additional hours. The parties each agree that the nature of the Executive' s position is such that his working time cannot be measured and, accordingly, that the appointment falls within the scope of regulation 20 of the Working Time Regulations 1998.

The Executive shall perform his duties primarily at the liaison office of the Company in Istanbul, Turkey or such other location as the Company may reasonably require for the proper performance and exercise of his duties. The Executive agrees to travel on the Company' s business both within Kazakhstan or anywhere else in the world as may be required for the proper performance of his duties under this Agreement.

2. **TERM**

The term of this Agreement (the "Term") shall be effective for a three-year period from December 9, 2007 and shall continue until December 8, 2010 or such earlier date as this Agreement may be terminated in accordance with the provisions hereof this Agreement or by Executive' s resignation. This Agreement and the continuation of Executive' s services to the Company, along with his positions and titles with the Company and its affiliates, may be renewed at the end of the said Term on conditions mutually acceptable to the Provider and the Company; however, if the same are not renewed, this Agreement shall terminate on Dec. 8, 2010 without further requirement of notice or pay in lieu thereof. The Company will provide notice of at least ninety (90) days if it intends to renew this Agreement.

3. **COMPENSATION**

a) Fees: For services rendered by Executive during the term of this Agreement, the Provider shall be paid a signing bonus of US$ 250,000, payable in three installments of US$

100,000 to be paid immediately upon execution of this Agreement, US$ 75,000 to be paid by January 15, 2008, and US$ 75,000 to be paid by February 15, 2008. In addition, the Provider shal be entitled to and a monthly fee of US$ 42,000. The monthly fee will be paid monthly on or around the 26th day of the month into the Provider' s nominated bank account(s). Such fee shall be reviewed annually and may be increased at the sole discretion of the Board of Directors taking into account, among other things, individual performance and general business conditions.

Company and Executive acknowledge that the services of the Executive are to be supplied on the basis that the compensation paid to the Executive for services performed will be subject to applicable taxation, if any.

b) **Stock Options:**

(1) In consideration of the Executive' s agreement to assume the responsibilities as

described above as the Company' s CEO and President, the Company grants to the Provider options to purchase 10 million shares of the Company' s common stock at an exercise price of $0.10 per share (the "Options"). The Options shall be governed by the Company' s form of Stock Option Agreement, which shall be executed either simultaneously herewith or shortly thereafter. [The Company and the Provider agree that the Options shall be issued and deemed to be "non-qualified deferred compensation," as such term is defined by Section 409A of the US Income Tax Act and that the exercise price for such options has been discounted from the current market for the Company' s common stock to compensate the Provider for services provided to the Company prior to finalization and execution of this Agreement.]

(2) The Options shall vest in accordance with the following schedule:

(i) 20% of the Options shall vest immediately;

(ii) 10% of the Options shall vest upon the Company' s common stock achieving a

per share price of US$ 0.35 on the Over the Counter Bulletin Board quotation system (OTE/BB) for a minimum of five consecutive trading days;

(iii) 25% of the Options shall vest upon the Company' s common stock achieving a per share price of US$ 0.50 on the Over the Counter Bulletin Board quotation system (OTE/BB) for a minimum of five consecutive trading days; and

(iv) 45% of the Options shall vest upon the Company' s common stock achieving a per share price of US$ 1.00 on the Over the Counter Bulletin Board quotation system (OTE/BB) for a minimum of five consecutive trading days.

(3) The Options shall be exercisable for a period of two (2) years from the date of vesting and have an exercise price of $0.10 per share.

4. **BENEFITS, PERQUISITES AND BUSINESS EXPENSES**

a) The Provider shall be entitled to participate in any future Stock Option Plan of Company on such terms as may be determined by the Board of Directors.

b) The Provider shall be entitled to be reimbursed for all reasonable expenses incurred by it or the Executive in connection with the conduct of the business of the Company pursuant to this Agreement. Such expenses shall be reimbursed within thirty (30) days following presentation of sufficient evidence of such expenditures, provided such expenditures are in accordance with the Company' s Staff Travel Policy as may be amended from time to time.

c) Executive shall be entitled to business class air travel at any time, in accordance with the Company' s Staff Travel Policy, as may be amended from time to time, whilst on Company business.

d) The Company will provide Executive with a car and driver (fully serviced and maintained, including petrol).

e) The Company shall pay the fees associated with membership in a businessman' s club in Kazakhstan.

f) The Company shall provide the Executive with a comprehensive health insurance and dental plan.

g) The Executive shall be entitled to 5 weeks of paid vacation per annum.

5. **TERMINATION**

a) **Termination by the Company without cause:** The Company shall be entitled to terminate this Agreement at any time without cause by giving the Provider one (1) month prior written notice of the termination but the Company shall be required to continue to pay the Provider' s monthly fee payments until the earlier to expire of 12 months from the date of such termination and the then current Term of this Agreement. In the event of termination of this Agreement hereunder without cause, Executive shall be immediately relieved of all of his responsibilities and authorities as an officer, director and employee of the Company and as an officer, director and employee of each and every affiliate in the Company effective as of the date of termination hereof fixed by the Company. In the event of termination without cause, rights and benefits of the Executive under the employee benefits plans and programs of the Company shall continue until expiry of the then current Term of this Agreement. If any such benefit or program cannot be so continued. Executive shall be entitled to receive a cash payment equal to the value of such benefits for such period.

b) **Termination by the Company for cause:** The Company shall be entitled to terminate this Agreement for cause at any time without notice and without any payment in lieu of notice. In the event of termination for cause, the Company' s obligations hereunder shall immediately cease and terminate and Executive shall be immediately relieved of all of his responsibilities and authorities as an officer, director and employee of the Company and as an officer, director and employee of each and every affiliate in the Company and in such an event there will be no continued monthly

fee payments by the Company to the Provider. For purposes of this paragraph 5(b), "cause" shall include, without limitation, the following circumstances,

i) The Provider or the Executive has committed a criminal offence involving moral turpitude or has improperly enriched himself at the expense of the Company;

ii) Executive, in carrying out his duties hereunder, (i) has been wilfully and grossly negligent, or (ii) has committed wilful and gross misconduct or, (iii) has failed to comply with a lawful instruction or directive from the Board of Directors (and which is not otherwise cured within thirty (30) days of notice of such breach);

iii) The Provider or the Executive has breached a material term of this Agreement (and which is not cured within thirty (30) days);

iv) The Provider becomes bankrupt or in the event a receiving order (or any analogous order under any applicable law) is made against the Provider or in the event the Provider makes any general disposition or assignment for the benefit of his creditors; or

v) Executive shall be diagnosed as being afflicted by chronic alcoholism or drug addiction.

Termination of this Agreement for cause shall be effective upon the date of the notice of termination given to the Provider or Executive and the lapse of any applicable cure period without remedy of the matters set out in such notice.

c) **Disability:** This Agreement shall terminate automatically upon written notice from the Company in the event of Executive' s absence or inability to render the services required hereunder due to disability, illness, incapacity or otherwise for an aggregate of ninety (90) days during any twelve (12) month period, provided that such disability, illness, incapacity or other cause has not occurred during the execution of the business of the Company by the Executive. In the event of any such absence or inability, the Provider shall be entitled to receive the compensation provided for herein for the first ninety (90) days thereof, whereafter it shall only be entitled to receive such compensation, if any, as may be determined by the Board of Directors. The Company shall also provide the Executive with customary Disability Insurance at no cost to the Provider or the Executive.

d) **Death:** In the event of the death of Executive during the term of this Agreement, the Provider' s monthly fee payments shall continue to be paid to the Provider through the end of the third month following the month in which Executive' s death occurs.

e) **Effect of Termination:** The Provider and the Executive each agree that, upon termination of this Agreement for any reason whatsoever, Executive shall thereupon be deemed to have immediately resigned any position that Executive may have as an officer, director or employee of the Company and each and every affiliate of the Company. In such event, Executive shall, at the request of the Company or any affiliate in the Company, forthwith execute any and all documents

appropriate to evidence such resignation. Neither the Provider nor the Executive shall be entitled to any payment in respect of such resignation in addition to those provided for herein, except as expressly provided for pursuant to any other agreement entered into with any affiliate in the Company.

f) **Survival of Terms:** It is expressly agreed that notwithstanding termination of this Agreement for any reason or cause or in any circumstances whatsoever, such termination shall be without prejudice to the rights and obligations of the Provider, the Executive and the Company respectively in relation to the time up to and including the date of termination and the provisions of paragraphs 3(b), 7 and 8 of this Agreement, all of which shall remain and continue in full force and effect.

6. **CHANGE OF CONTROL**

a) **Definitions**: The following terms used in this paragraph 7 shall have the meanings set forth below:

i) "Change of Control" shall mean the occurrence of:

(A) the acquisition of shares of Company and/or securities ("Convertible Securities") convertible into, exchangeable for or representing the right to acquire shares of Company as a result of which a person, group of persons or persons acting jointly or in concert, or persons associated or affiliated within the meaning of the U.S. Securities Act of 1933 with any such person, group of persons or any of such persons acting jointly or in concert (collectively, the "Acquirers"), beneficially own, directly or indirectly, shares of Company and/or Convertible Securities such that, assuming only the conversion, exchange or exercise of the Convertible Securities beneficially owned, directly or indirectly, by the Acquirers, the Acquirers would beneficially own, directly or indirectly, shares that would entitle the holders thereof to cast more than 51% of the votes attaching to all shares in the capital of Company that may be cast to elect directors of Company; or

(B) the election at any meeting of shareholders of Company of a majority of directors to the Board of Directors of Company who are not recommended by management.

b) **Rights Upon Change in Control**: If a Change in Control occurs:

i) then, for a period of six (6) months following the date of such Change of Control, the Provider shall have the right to elect that

the Change of Control is a termination of this Agreement by the Company without cause. If the Provider notifies the Company of this election in writing, or in the event that the Company shall terminate this Agreement without cause during such period of six (6) months following the date of the Change of Control, the Provider shall be entitled to receive and the Company shall pay to the Provider a severance payment equal to the greater of (a) the amount of compensation that the Provider would have earned under this Agreement during the remaining term of this Agreement immediately prior to such Change of Control or (a) six (6) months of fee payments at the rate of compensation set forth in paragraph 3 above. The payments set out in this paragraph 6 are in addition to any other rights provided hereunder with respect to termination of this Agreement without cause. If the Provider does not elect termination, this Agreement will continue in full force and effect in accordance with its terms.

7. **NON-COMPETITION AND NON-SOLICITATION**

a) The Provider agrees that during the period of this Agreement and for a period of twelve (12) months from the last payment of compensation to the Provider by the Company, the Provider and the Executive shall not engage in or participate in any entity in the oil and gas industry that competes, directly or indirectly, with the businesses of the Company or any affiliate in the Company, provided, however, that the Provider and Executive shall not be precluded from competing with the business of the Company in the event of a termination of this Agreement as a result of a material breach by the Company of the provisions of this Agreement, or in the event that this Agreement is terminated or deemed to be terminated by the Company without cause (including without limitation, pursuant to paragraph 6 hereof). In particular, the Provider and the Executive agree that for as long as this non-compete provision is in effect their services in connection with the possibility of entering into a contract with Genel Enerji A.^. in connection with the Taq Taq oil field in Iraq (the "Genel Deal") will be offered exclusively to the Company and that neither the Provider nor the Executive shall pursue the Genel Deal with anyone other than the Company or assist anyone other than the Company to pursue the Genel Deal.

b) Notwithstanding anything to the contrary contained herein the Provider and Executive may, without being deemed to compete, directly or indirectly, with the businesses of the Company or any affiliate in the Company, own not more than five percent (5%) of any class of the outstanding securities of any corporation listed on a securities exchange or traded in any over-the-counter market.

c) The Provider and Executive agree that for a period of twelve (12) months following the termination hereof for any reason whatsoever, the Provider and Executive will not, whether as principal, agent, consultant, employee, employer, director, officer, shareholder or in any other individual or representative capacity, solicit or attempt to retain in any way whatsoever any of the employees of the Company or of any affiliates in the Company, provided however, that the Provider and Executive shall not be precluded from soliciting or retaining employees of the Company in the event of a termination of this Agreement as a result of a material breach by the Company of the

provisions of this Agreement, or in the event that this Agreement is terminated or deemed to be terminated by the Company without cause (including without limitation, pursuant to paragraph 6).

d) It is the desire and the intent of the parties that the provisions of this paragraph 7 shall be enforceable to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular portion of this paragraph 7 is adjudicated unenforceable in any jurisdiction such adjudication shall apply only in that particular jurisdiction in which such adjudication is made.

8. **CONFIDENTIAL INFORMATION**

a) The Provider and Executive agree not to disclose, either during the term of this Agreement or at any time for a period of three years thereafter, to any person not employed by the Company or by any affiliate of the Company or not engaged to render services to the Company or to any affiliate in the Company, any trade secrets or confidential information of or relating to the Company or any affiliate of the Company obtained by the Provider or Executive during the term hereof; provided, however, that this provision shall not preclude the Provider or Executive from the use or disclosure of information known generally to the public (other than that which the Provider or Executive may have disclosed in breach of this Agreement) or of information required to be disclosed by law or court order applicable to the Provider or Executive or information authorized to be disclosed by the Board of Directors.

b) The Provider and the Executive also agree that upon termination of this Agreement for any reason whatsoever, Executive will not take, without the prior written consent of the Board of Directors, any drawing, blueprint, specification, report or other document belonging or relating to the Company or to any affiliate in the Company.

9. **NOTICES**

Any notices, requests, demands or other communications provided for by this Agreement shall be in writing and shall be sufficiently given when and if mailed by registered or certified mail, return receipt requested, postage prepaid, or sent by personal delivery, overnight courier or by facsimile to the party entitled thereto at the address stated at the beginning of this Agreement or at such other address as the parties may have specified by similar notice.

Any such notice shall be deemed delivered on the tenth business day following the mailing thereof if delivered by prepaid post or if given by means of personal delivery on the day of delivery thereof or if given by means of courier or facsimile transmission on the first business day following the dispatch thereof.

10. **ENTIRE AGREEMENT**

This Agreement contains the entire agreement between the parties hereto with respect to the matters herein and supersedes all prior agreements and understandings, oral or written, between the parties hereto relating to such matters. Notwithstanding the foregoing, the Company acknowledges and agrees to honor the terms of the Agreement dated October 2, 2007 by and between the Provider, the

Excutive, Mr. Matthew Heysal and M.H. Financial Management Limited with respect to the sharing of success fees for the Genel Deal.

11. **ASSIGNMENT**

Except as herein expressly provided, the respective rights and obligations of the Provider and the Company under this Agreement shall not be assignable by either party without the written consent of the other party and shall, subject to the foregoing, enure to the benefit of and be binding upon the Provider and the Company and their permitted successors or assigns. Nothing herein expressed or implied is intended to confer on any person other than the parties hereto any rights, remedies, obligations or liabilities under or by reason of this Agreement. The Provider is expressly prohibited from fulfilling or attempting to fulfil its any or all of obligations hereunder by providing the services of any person other than the Executive.

12. **APPLICABLE LAW**

This Agreement shall be deemed a contract under, and for all purposes shall be governed by and construed in accordance with, the laws of England. Each of the parties hereto hereby irrevocably submits to the non-exclusive jurisdiction of the courts of England with respect to any proceedings brought in respect of this Agreement or the subject matter hereof.

13. **AMENDMENT OR MODIFICATION; WAIVER**

No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Company (including any authorized officer or committee of the Board of Directors) and is in writing signed by the Provider and by a duly authorized representative of the Company. Except as otherwise specifically provided in this Agreement, no waiver by either party hereto of any breach by the other party of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar breach, condition or provision at the same time or at any prior or subsequent time.

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14. **GUARANTEES OF PERFORMANCE**

a) The Company hereby guarantees to and in favour of the Provider the due and timely performance and payment of all obligations, duties and liabilities of the Company and its affiliates under this Agreement and agrees to perform all obligations and pay all amounts due hereunder to Executive forthwith upon any breach or failure by the Company or its affiliates in the performance of the terms and conditions hereof.

b) The Executive hereby guarantees to and in favour of the Company the due and timely performance of all obligations, duties and responsibilities of the Provider under this Agreement and agrees to perform all obligations as required hereunder or as the Executive shall be directed by the Company' s Board of Directors.

If you are in agreement with the foregoing terms and conditions, please confirm your acceptance by signing and returning the enclosed duplicate copy of this correspondence.

BIG SKY ENERGY CORPORATION

Per:
Matthew Heysel

Accepted and agreed:

HILLGATE ASSOCIATES LTD.,
a British Virgin Islands corporation

Per:
Name and Title: Dr. Servet Harunoglu

EXECUTIVE

Per:
Dr. Servet Harunoglu, individually

Execution Copy
Monday, December 24, 2007

Big Sky Energy Corporation

Suite 311, 840-6th Avenue SW

Calgary, Alberta
Canada, T2P 3E5

Effective as of December 9, 2007

STRICTLY PRIVATE AND CONFIDENTIAL

Suntree Limited c/o Adv. Barry Swersky

Re: ***Consulting Agreement***

Dear Mr. Swersky:

We wish to confirm our discussions concerning Big Sky Energy Corporation (referred to herein as the "Company") retaining the services of Suntree Limited (the "Provider"), through which you will fulfill the duties and accept certain positions as an Executive officer of the Company as more specifically described below in this Consulting Agreement (referred to herein as this "Agreement") on the terms and conditions set forth below. Throughout this document, the term "Executive" shall mean Mr. Barry Swersky., whose time and services are provided by the Provider.

1. **POSITION AND RESPONSIBILITIES**

Executive shall serve the Company in the capacity of Co-Chairman and Board Member and shall fully and faithfully perform such duties and exercise such powers as are incidental to such position including those duties set out in the following paragraphs in connection with the business of the Company, its affiliates and joint ventures and such other compatible duties and powers as may from time to time be assigned to the Executive by the board of directors of the Company (the "Board of Directors").

As Executive to have responsibility for the supervision, and direction of the Company with the obligation, duty, authority, and power to do all acts and things as are customarily done by persons holding the position of Executive in companies/corporations of similar size to the Company and to do all acts and things as are reasonably necessary for the efficient and proper operation and development of the Company. In particular Executive shall supervise legal matters and Corporate Governance.

Such responsibilities shall include, but shall not be limited to, (i) reporting to the Board of Directors of Big Sky, (ii) working closely with the President and CEO, the Executive Chairman, the CFO and COO and senior officers to represent the Company' s interests in its existing joint ventures and to increase the Company' s global oil and gas portfolio, (iv) supported by the senior

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officers, increasing Company's stakes in its existing joint ventures and acquiring development/production assets that would increase Company' s reserves base in the short to medium term.

Executive shall fully and faithfully perform such duties and fulfill such obligations, as are commensurate with his appointment as Executive. Executive shall devote full attention using his best efforts to apply his skill and experience to perform his duties hereunder and promote the interests of the business and projects of the Company.

Executive places on record that he does not have other oil and gas interests and does not hold positions in other public and private oil and gas companies. However should the Executive have other oil and gas interests in the future, then full disclosure will be made to the Company. The Executive further acknowledges that these other interests will not interfere with the Executive' s ability to carry out his responsibilities hereunder and will not contravene the requirements of this Agreement. The Executive does have and may have other business interests which do not interfere with his ability to carry out his responsibilities.

The Executive acknowledges that he may be required to work beyond the normal work week for the proper performance of his duties, and that he shall not receive further remuneration in respect of such additional hours. The parties each agree that the nature of the Executive' s position is such that his working time cannot be measured and, accordingly, that the appointment falls within the scope of regulation 20 of the Working Time Regulations 1998.

The Executive shall perform his duties at the liaison office of the Company in Istanbul, Turkey or such other location as the Company may reasonably require for the proper performance and exercise of his duties. The Executive agrees to travel on the Company' s business both within Kazakhstan or anywhere else in the world as may be required for the proper performance of his duties under this Agreement.

2. **TERM**

The term of this Agreement (the "Term") shall be effective for a three-year period from December 9, 2007 and shall continue until December 8, 2010 or such earlier date as this Agreement may be terminated in accordance with the provisions of this Agreement or by Executive' s resignation. This Agreement and the continuation of Executive' s services to the Company, along with his positions and titles with the Company and its affiliates, may be renewed at the end of the said Term on conditions mutually acceptable to the Provider and the Company; however, if the same are not renewed, this Agreement shall terminate on Dec. 8, 2010 without further requirement of notice or pay in lieu thereof. The Company will provide notice of at least ninety (90) days if it intends to renew this Agreement.

3. **COMPENSATION**

a) **Fees:** For services rendered by Executive during the term of this Agreement, the Provider shall be paid a signing bonus of US$ 175,000, payable in three installments, one-third to be paid immediately upon execution of this Agreement, one-third to be paid by January 15, 2008, and one-third to be paid by February 15, 2008. In addition, the Provider shall be entitled to a monthly fee of US$ 25,000 for the first year, US$ 27,500 for the second year and US$ 30,000 for

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the third year. The monthly fee will be paid monthly on or around the 26th day of the month into the Provider' s nominated bank account(s). Such fee shall be reviewed annually and may be increased at the sole discretion of the Board of Directors taking into account, among other things, individual performance and general business conditions.

Company and Executive acknowledge that the services of the Executive are to be supplied on the basis that the compensation paid to the Executive for services performed will be subject to applicable taxation, if any.

b) **Stock Options:**

(1) In consideration of the Executive' s agreement to assume the responsibilities as

described above as the Company' s Executive, the Company grants to the Provider options to purchase 6 million shares of the Company' s common stock at an exercise price of $0.10 per share (the "Options"). The Options are in lieu of and replace any stock options granted earlier to the Provider. The Options shall be governed by the Company' s form of Stock Option Agreement, which shall be executed either simultaneously herewith or shortly thereafter. The Company and the Provider agree that the Options shall be issued and deemed to be "non-qualified deferred compensation," as such term is defined by Section 409A of the US Income Tax Act.

(2) The Options shall vest in accordance with the following schedule:

(i) 20% of the Options shall vest immediately;

(ii) 10% of the Options shall vest upon the Company' s common stock achieving a

per share price of US$ 0.35 on the Over the Counter Bulletin Board quotation system (OTE/BB) for a minimum of five consecutive trading days;

(iii) 25% of the Options shall vest upon the Company' s common stock achieving a per share price of US$ 0.50 on the Over the Counter Bulletin Board quotation system (OTE/BB) for a minimum of five consecutive trading days; and

(iv) 45% of the Options shall vest upon the Company' s common stock achieving a per share price of US$ 1.00 on the Over the Counter Bulletin Board quotation system (OTE/BB) for a minimum of five consecutive trading days.

(3) The Options shall be exercisable for a period of three (3) years from the date of vesting and have an exercise price of $0.10 per share.

4. **BENEFITS, PERQUISITES AND BUSINESS EXPENSES**

a) The Provider shall be entitled to participate in any future Stock Option Plan of Company on such terms as may be determined by the Board of Directors.

b) The Provider shall be entitled to be reimbursed for all reasonable expenses incurred by it or the Executive in connection with the conduct of the business of the Company pursuant to this

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Agreement. Such expenses shall be reimbursed within thirty (30) days following presentation of sufficient evidence of such expenditures, provided such expenditures are in accordance with the Company' s Staff Travel Policy as may be amended from time to time.

c) Executive shall be entitled to air travel in accordance with the Company' s Staff Travel Policy, as may be amended from time to time, whilst on Company business.

d) The Company shall provide the Executive with a comprehensive health insurance and dental plan.

e) The Executive shall be entitled to 5 weeks of paid vacation per annum.

f) The Executive shall be entitled to US$ 5 000 per month for administrative assistance.

5. **TERMINATION**

a) **Termination by the Company without cause:**

The Company shall be entitled to terminate this Agreement at any time without cause by giving the Provider one (1) month prior written notice of the termination but the Company shall be required to continue to pay the Provider' s monthly fee payments until the earlier to expire of 12 months from the date of such termination and the then current Term of this Agreement. In the event of termination of this Agreement hereunder without cause, Executive shall be immediately relieved of all of his responsibilities and authorities as an officer, director and employee of the Company and as an officer, director and employee of each and every affiliate in the Company effective as of the date of termination hereof fixed by the Company. In the event of termination without cause, rights and benefits of the Executive under the employee benefits plans and programs of the Company shall continue until expiry of the then current Term of this Agreement. If any such benefit or program cannot be so continued, Executive shall be entitled to receive a cash payment equal to the value of such benefits for such period.

b) **Termination by the Company for cause:** The Company shall be entitled to terminate this Agreement for cause at any time without notice and without any payment in lieu of notice. In the event of termination for cause, the Company' s obligations hereunder shall immediately cease and terminate and Executive shall be immediately relieved of all of his responsibilities and authorities as an officer, director and employee of the Company and as an officer, director and employee of each and every affiliate in the Company and in such an event there will be no continued monthly fee payments by the Company to the Provider. For purposes of this paragraph 5(b), "cause" shall include, without limitation, the following circumstances,

i) The Provider or the Executive has committed a criminal offence involving moral turpitude or has improperly enriched himself at the expense of the Company;

ii) Executive, in carrying out his duties hereunder, (i) has been wilfully and grossly negligent, or (ii) has committed wilful and gross misconduct or, (iii) has failed to comply with a lawful instruction or directive from the Board of Directors (and which is not otherwise cured within thirty (30) days of notice of such breach);

iii) The Provider or the Executive has breached a material term of this Agreement (and which is not cured within thirty (30) days);

iv) The Provider becomes bankrupt or in the event a receiving order (or any analogous order under any applicable law) is made against the Provider or in the event the Provider makes any general disposition or assignment for the benefit of his creditors; or

v) Executive shall be diagnosed as being afflicted by chronic alcoholism or drug addiction.

Termination of this Agreement for cause shall be effective upon the date of the notice of termination given to the Provider or Executive and the lapse of any applicable cure period without remedy of the matters set out in such notice.

c) **Disability:** This Agreement shall terminate automatically upon written notice from the Company in the event of Executive' s absence or inability to render the services required hereunder due to disability, illness, incapacity or otherwise for an aggregate of ninety (90) days during any twelve (12) month period, provided that such disability,

illness, incapacity or other cause has not occurred during the execution of the business of the Company by the Executive. In the event of any such absence or inability, the Provider shall be entitled to receive the compensation provided for herein for the first ninety (90) days thereof, whereafter it shall only be entitled to receive such compensation, if any, as may be determined by the Board of Directors. The Company shall also provide the Executive with customary Disability Insurance at no cost to the Provider or the Executive.

d) **Death:** In the event of the death of Executive during the term of this Agreement, the Provider' s monthly fee payments shall continue to be paid to the Provider through the end of the third month following the month in which Executive' s death occurs.

e) **Effect of Termination:** The Provider and the Executive each agree that, upon termination of this Agreement for any reason whatsoever, Executive shall thereupon be deemed to have immediately resigned any position that Executive may have as an officer, director or employee of the Company and each and every affiliate of the Company. In such event, Executive shall, at the request of the Company or any affiliate in the Company, forthwith execute any and all documents appropriate to evidence such resignation. Neither the Provider nor the Executive shall be entitled to any payment in respect of such resignation in addition to those provided for herein, except as expressly provided for pursuant to any other agreement entered into with any affiliate in the Company.

f) **Survival of Terms:** It is expressly agreed that notwithstanding termination of this Agreement for any reason or cause or in any circumstances whatsoever, such termination shall be without prejudice to the rights and obligations of the Provider, the Executive and the Company respectively in relation to the time up to and including the date of termination and the provisions of paragraphs 3(b), 7 and 8 of this Agreement, all of which shall remain and continue in full force and effect.

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6. **CHANGE OF CONTROL**

a) **Definitions**: The following terms shall have the meanings set forth below:

"Change of Control" shall mean the occurrence of:

(A) the acquisition of shares of Company and/or securities ("Convertible Securities") convertible into, exchangeable for or representing the right to acquire shares of Company as a result of which a person, group of persons or persons acting jointly or in concert, or persons associated or affiliated within the meaning of the U.S. Securities Act of 1933 with any such person, group of persons or any of such persons acting jointly or in concert (collectively, the "Acquirers"), beneficially own, directly or indirectly, shares of Company and/or Convertible Securities such that, assuming only the conversion, exchange or exercise of the Convertible Securities beneficially owned, directly or indirectly, by the Acquirers, the Acquirers would beneficially own, directly or indirectly, shares that would entitle the holders thereof to cast more than 51% of the votes attaching to all shares in the capital of Company that may be cast to elect directors of Company; or

(B) the election at any meeting of shareholders of Company of a majority of directors to the Board of Directors of Company who are not recommended by management.

b) **Rights Upon Change in Control**:

If a Change in Control occurs:

i) then, for a period of six (6) months following the date of such Change of Control, the Provider shall have the right to elect that the Change of Control is a termination of this Agreement by the Company without cause. If the Provider notifies the Company of this election in writing, or in the event that the Company shall terminate this Agreement without cause during such period of six (6) months following the date of the Change of Control, the Provider shall be entitled to receive and the Company shall pay to the Provider a severance payment equal to the greater of (a) the amount of compensation that the Provider would have earned under this Agreement during the remaining term of this Agreement immediately prior to such Change of Control or (a) six (6) months of fee payments at the rate of compensation set forth in paragraph 3

above. The payments set out in this paragraph 6 are in addition to any other rights provided hereunder with respect to termination of this Agreement without cause. If the Provider does not elect termination, this Agreement will continue in full force and effect in accordance with its terms.

7. **NON-COMPETITION AND NON-SOLICITATION**

a) The Provider agrees that during the period of this Agreement and for a period of twelve (12) months from the last payment of compensation to the Provider by the Company, the Provider and the Executive shall not engage in or participate in any entity in the oil and gas industry that competes, directly or indirectly, with the businesses of the Company or any affiliate in the Company, provided, however, that the Provider and Executive shall not be precluded from competing with the business of the Company in the event of a termination of this Agreement as a result of a material breach by the Company of the provisions of this Agreement, or in the event that this Agreement is terminated or deemed to be terminated by the Company without cause (including without limitation, pursuant to paragraph 5 hereof). In particular, the Provider and the Executive agree that for as long as this non-compete provision is in effect their services in connection with the possibility of entering into a contract with Genel Enerji A.^. in connection with the Taq Taq oil field in Iraq (the "Genel Deal") will be offered exclusively to the Company and that neither the Provider nor the Executive shall pursue the Genel Deal with anyone other than the Company or assist anyone other than the Company to pursue the Genel Deal.

b) Notwithstanding anything to the contrary contained herein the Provider and Executive may, without being deemed to compete, directly or indirectly, with the businesses of the Company or any affiliate in the Company, own not more than five percent (5%) of any class of the outstanding securities of any corporation listed on a securities exchange or traded in any over-the-counter market.

c) The Provider and Executive agree that for a period of twelve (12) months following the termination hereof for any reason whatsoever, the Provider and Executive will not, whether as principal, agent, consultant, employee, employer, director, officer, shareholder or in any other individual or representative capacity, solicit or attempt to retain in any way whatsoever any of the employees of the Company or of any affiliates in the Company, provided however, that the Provider and Executive shall not be precluded from soliciting or retaining employees of the Company in the event of a termination of this Agreement as a result of a material breach by the Company of the provisions of this Agreement, or in the event that this Agreement is terminated or deemed to be terminated by the Company without cause (including without limitation, pursuant to paragraph 5).

d) It is the desire and the intent of the parties that the provisions of paragraphs 7 and 8 shall be enforceable to the fullest extent permissible under the laws and public policies applied in each jurisdiction in which enforcement is sought. Accordingly, if any particular portion of paragraphs 7 and 8 is adjudicated unenforceable in any jurisdiction such adjudication shall apply only in that particular jurisdiction in which such adjudication is made.

8. **CONFIDENTIAL INFORMATION**

a) The Provider and Executive agree not to disclose, either during the term of this Agreement or at any time for a period of three years thereafter, to any person not employed by the Company or by any affiliate of the Company or not engaged to render services to the Company or to any affiliate in the Company, any trade secrets or confidential information of or relating to the Company or any affiliate of the Company obtained by the Provider or Executive during the term hereof; provided, however, that this provision shall not preclude the Provider or Executive from the use or disclosure of information known generally to the public (other than that which the Provider or Executive may have disclosed in breach of this Agreement) or of information required to be disclosed by law or court order applicable to the Provider or Executive or information authorized to be disclosed by the Board of Directors.

b) The Provider and the Executive also agree that upon termination of this Agreement for any reason whatsoever, Executive will not take, without the prior written consent of the Board of Directors, any drawing, blueprint, specification, report or other document belonging or relating to the Company or to any affiliate in the Company.

9. **NOTICES**

Any notices, requests, demands or other communications provided for by this Agreement shall be in writing and shall be sufficiently given when and if mailed by registered or certified mail, return receipt requested, postage prepaid, or sent by personal delivery, overnight courier or by facsimile to the party entitled thereto at the address stated at the beginning of this Agreement or at such other address as the parties may have specified by similar notice.

Any such notice shall be deemed delivered on the tenth business day following the mailing thereof if delivered by prepaid post or if given by means of personal delivery on the day of delivery thereof or if given by means of courier or facsimile transmission on the first business day following the dispatch thereof.

10. **ASSIGNMENT**

Except as herein expressly provided, the respective rights and obligations of the Provider and the Company under this Agreement shall not be assignable by either party without the written consent of the other party and shall, subject to the foregoing, enure to the benefit of and be binding upon the Provider and the Company and their permitted successors or assigns. Nothing herein expressed or implied is intended to confer on any person other than the parties hereto any rights, remedies, obligations or liabilities under or by reason of this Agreement. The Provider is expressly prohibited from fulfilling or attempting to fulfil its any or all of obligations hereunder by providing the services of any person other than the Executive.

11. **APPLICABLE LAW**

This Agreement shall be deemed a contract under, and for all purposes shall be governed by and construed in accordance with, the laws of England. Each of the parties hereto hereby irrevocably submits to the non-exclusive jurisdiction of the courts of England with respect to any proceedings brought in respect of this Agreement or the subject matter hereof.

12. **AMENDMENT OR MODIFICATION; WAIVER**

No provision of this Agreement may be amended or waived unless such amendment or waiver is authorized by the Company (including any authorized officer or committee of the Board of Directors) and is in writing signed by the Provider and by a duly authorized representative of the Company. Except as otherwise specifically provided in this

Agreement, no waiver by either party hereto of any breach by the other party of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar breach, condition or provision at the same time or at any prior or subsequent time.

13. **Entire Agreement**

This agreement contains the entire agreement between the parties hereto with respect to the matters herein and supersedes all prior agreements and understandings, oral or written, between the parties hereto, relating to such matters.

14. **GUARANTEES OF PERFORMANCE**

a) The Company hereby guarantees to and in favour of the Provider the due and timely performance and payment of all obligations, duties and liabilities of the Company and its affiliates under this Agreement and agrees to perform all obligations and pay all amounts due hereunder to Executive forthwith upon any breach or failure by the Company or its affiliates in the performance of the terms and conditions hereof.

b) The Executive hereby guarantees to and in favour of the Company the due and timely performance of all obligations, duties and responsibilities of the Provider under this Agreement and agrees to perform all obligations as required hereunder or as the Executive shall be directed by the Company' s Board of Directors.

If you are in agreement with the foregoing terms and conditions, please confirm your acceptance by signing and returning the enclosed duplicate copy of this correspondence.

BIG SKY ENERGY CORPORATION

Per:
Name: Mr. Matthew Heysel
Title: Executive Chairman

Accepted and agreed:
Suntree Ltd.,
Per:
Name : Mr. Barry Swersky
Director

Per:
Mr. Barry Swersky, individually

Dated: December 24, 2007

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Matthew J. Heysel, certify that:

1. I have reviewed this Annual report of Big Sky Energy Corporation

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or causes such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal controls over financial reporting.

Date: April 02, 2008

By: /s/ Matthew J Heysel

Name: Matthew J Heysel

Title: Executive Chairman of the Board (Principal Accounting Officer)

Exhibit 31.2

SECTION 302 CERTIFICATION

I, Servet Harunoglu, certify that:

1. I have reviewed this Annual report of Big Sky Energy Corporation

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or causes such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal controls over financial reporting.

Date: April 02, 2008

By: /s/ Servet Harunoglu

Name: Servet Harunoglu

Title: Chief Executive Officer (Principal Executive Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. §1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Big Sky Energy Corporation (the "Company") on Form 10-KSB for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew J Heysel, Executive Chairman of the Board of Directors, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 02, 2008 By: /s/ Matthew J Heysel
Name: Matthew J Heysel
Title: Executive Chairman of the Board of Directors
(Principal Accounting Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. §1350, AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Big Sky Energy Corporation (the "Company") on Form 10-KSB for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Servet Harunoglu, Chief Executive Officer, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 02, 2008 By: /s/ Servet Harunoglu
Name: Servet Harunoglu
Title: Chief Executive Officer (Principal Executive Officer)