



(formerly Fox Resources Ltd.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(Expressed in US Dollars)

(Unaudited – Prepared by Management)

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**NOTICE OF NO AUDITOR REVIEW OF
INTERIM FINANCIAL STATEMENTS**

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

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

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

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in US dollars)

		September 30,	December 31,
		2012	2011
	Notes	(Unaudited)	(Audited)
Assets			
Oil and natural gas properties	5	\$ 964,657	\$ 1,022,601
Prepaid expenses		7,443	31,947
Accounts receivable		84,812	101,414
Cash		4,575,808	5,877,244
Total current assets		4,668,063	6,010,605
Total assets		\$ 5,632,720	\$ 7,033,206
Shareholders' Equity			
Share capital	6	\$ 10,190,960	\$ 10,190,960
Reserves	6	1,285,878	1,166,240
Deficit		(5,909,969)	(4,912,367)
Total shareholders' equity		5,566,869	6,444,833
Liabilities			
Due to related parties	7	34,503	18,839
Accounts payable and accrued liabilities		31,348	569,534
Total current liabilities		65,851	588,373
Total shareholders' equity and liabilities		\$ 5,632,720	\$ 7,033,206

These consolidated financial statements are authorized for issue by the Board of Directors on November 28, 2012.

They are signed on the Company's behalf by:

/s/Milton Cox

Director

/s/Mark T. Brown

Director

See notes to condensed consolidated interim financial statements

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in US dollars; Unaudited)

	Notes	For the three months ended		For the nine months ended	
		September 30,		September 30,	
		2012	2011	2012	2011
Exploration and evaluation expenses					
Engineering and geological		\$ 14,850	\$ 63,926	\$ 28,117	\$ 63,926
Intangible completion		-	216,298	93,996	216,298
Intangible drilling		6,728	(78,185)	145,939	456,310
Land Management		9,975	-	28,050	-
Lease operating		8,942	25,382	10,846	25,382
Management-field Operations		22,000	-	44,000	-
		(62,495)	(227,421)	(350,948)	(761,916)
General and administrative expenses					
Consulting fees		72,465	42,533	217,434	53,211
Interest expense	4	-	(81,000)	-	104,394
Investor relations		4,389	-	25,752	-
Office and administrative		41,481	(277)	149,106	73,933
Professional fees		47,156	23,640	176,338	74,272
Transfer agent, listing and filing fees		8,051	545	25,035	1,225
Travel		49,038	35,068	112,283	86,053
		(222,580)	(20,509)	(705,948)	(393,088)
Other items					
Gain on sale of oil & natural gas properties	5	-	-	73,059	-
Interest income		2,014	638	9,785	1,024
Other income		2,175	-	17,229	44,000
Foreign exchange gain		(94,213)	-	(40,779)	-
		(90,024)	638	59,294	45,024
Net Loss		(375,099)	(247,292)	(997,602)	(1,109,980)
Exchange differences on translation of foreign operations		110,597	-	119,638	-
Total comprehensive loss for the period		\$ (264,502)	\$ (247,292)	\$ (877,964)	\$ (1,109,980)
Basic and diluted loss per share		\$ (0.00)	\$ (0.04)	\$ (0.01)	\$ 0.21
Weighted average number of common shares outstanding		60,676,665	6,326,667	60,676,665	5,011,649

See notes to condensed consolidated interim financial statements

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in US dollars)

Issued and outstanding:	Notes	Number of Shares	Share Capital	Reserves				Total Shareholders' Equity
				Equity-settled Employee Benefits	Finder's Warrants	Foreign Currency Translation	Deficit	
Balance as at December 31, 2010 (Audited)		-	\$ -	\$ -	\$ -	\$ -	\$ (225,305)	\$ (225,305)
Capital contribution		-	-	-	-	-	225,305	225,305
Net loss and comprehensive loss for the period							(1,109,980)	(1,109,980)
Balance as at September 30, 2011 (unaudited)		-	-	-	-	-	(1,109,980)	(1,109,980)
Capital contribution		-	-	-	-	-	-	-
Reorganization due to reverse takeover acquisition	4	6,326,667	2,145,246	-	-	-	-	2,145,246
Shares issued:								
Shares issued in reverse takeover acquisition	4 & 6(b)(ii)	27,000,000	-	-	-	-	-	-
Shares issued to lenders	4 & 6(b)(ii)	1,350,000	457,758	-	-	-	-	457,758
Private placement	6(b)(i)	25,714,285	8,719,200	-	-	-	-	8,719,200
Shares issued for finder's fees	6(b)(i)	285,713	96,880	-	-	-	-	96,880
Share issue costs	6(b)(i)	-	(1,228,124)	-	686,976	-	-	(541,148)
Share-based payments		-	-	375,219	-	-	-	375,219
Net loss and comprehensive loss for the period		-	-	-	-	104,045	(3,802,387)	(3,698,342)
Balance as at December 31, 2011 (Audited)		60,676,665	10,190,960	375,219	686,976	104,045	(4,912,367)	6,444,833
Net loss and comprehensive loss for the period		-	-	-	-	119,638	(997,602)	(877,964)
Balance as at September 30, 2012 (Unaudited)		60,676,665	\$10,190,960	\$ 375,219	\$686,976	\$ 223,683	\$(5,909,969)	\$ 5,566,869

See notes to condensed consolidated interim financial statements

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the nine months ended September 30

(Expressed in US dollars; Unaudited)

	2012	2011
Cash provided by (used in)		
Operating activities		
Net loss	\$ (997,602)	\$ (1,109,980)
Item not involving cash:		
Gain on sale of oil and natural gas properties	(73,059)	-
Changes in non-cash working capital items:		
Accounts receivable	17,161	(436,219)
Prepaid expenses	24,891	(562,245)
Accounts payable and accrued liabilities	(543,343)	236,814
Due from/to related party	14,958	-
	(1,556,994)	(1,871,630)
Investing activities		
Oil and natural gas properties	(96,658)	(967,840)
Proceed from disposal of oil and natural gas properties	227,661	-
	131,003	(967,840)
Financing activities		
Capital contribution	-	222,685
Proceed from loans	-	4,000,000
	-	4,222,685
Effects of exchange rate changes on behalf of cash held in foreign currencies	124,555	-
Change in cash	(1,301,436)	1,383,215
Cash, beginning of period	5,877,244	-
Cash, end of period	\$ 4,575,808	\$ 1,383,215
Supplemental cash flow information:		
Interest received	\$ 9,785	\$ 1,024
Interest paid	\$ -	\$ 104,394

See notes to condensed consolidated interim financial statements

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Big Sky Petroleum Corporation (the “Company”), formerly Fox Resources Ltd. (“Fox”), was incorporated under the *Canada Business Corporations Act* on February 3, 2006 and, effective July 6, 2009, changed its continuance out of the federal jurisdiction into the British Columbia jurisdiction under the *Business Corporations Act* (British Columbia). The Company has been listed on the TSX Venture Exchange (the “TSX-V” or “Exchange”) since May 5, 2006.

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

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

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company reported a net loss of \$997,602 for the nine months ended September 31, 2012 (2011 - \$1,109,980) and had an accumulated deficit of \$5,909,969 at September 30, 2012 (December 31, 2011 - \$4,912,367). The Company has no source of operating revenues and its capacity to operate as a going concern in the near-term will likely depend on its ability to continue raising equity financing.

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

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

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2012 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

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

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

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements do not include all note disclosures required by IFRS for annual financial statements, and therefore should be read in conjunction with the annual financial statements for the year ended December 31, 2011. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the nine months period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

4. REVERSE TAKEOVER ACQUISITION

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

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

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

Net assets acquired	\$ 925,796
Consideration of common shares deemed to be issued	2,145,246
<hr/>	
Transaction costs	\$ 1,219,450

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

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

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

5. OIL AND NATURAL GAS PROPERTIES

Montana

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

(a) Somont Farm-In Package

On January 26, 2011, Big Sky entered into a Farmout Agreement with Somont Oil Company Inc. to acquire a 33.33% working interest (with a 20% royalty burden) on a property located in Toole County, Montana known as the Somont Farm-In Package.

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

The initial obligation well has been drilled, and the two subsequent wells are tied to a 180-day drilling obligation clock that starts at the spud of the previous well. The second well was drilled in November 2011. Any additional wells drilled after these first two subsequent wells are then tied to a 90-day drilling obligation clock that, again, starts at the spud of the previous well drilled. There is no monetary penalty if Big Sky elects to discontinue drilling additional wells. However, the Farm-out Agreement will terminate and Big Sky will lose the right to earn additional acreage if drilling ceases.

(b) Americana Acreage Block

On January 27, 2011, Big Sky entered into a Lease Acquisition Agreement pursuant to which it purchased a 33.33% working interest (with a 20% royalty burden) on a property known as Americana Acreage Block.

(c) FX Block

On January 27, 2011, Big Sky entered into a Lease Acquisition Agreement pursuant to which it purchased a 33.33% working interest (with a 20% royalty burden) on a property located in Glacier County, Montana known as the FX Block.

Effective February 2011, the Company signed a Joint Participation Agreement and Operating Agreement with FX Producing Company, Inc. and American Eagle Energy Inc. to explore in the Alberta Bakken region of Montana with an undivided 33 1/3% interest each.

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

5. OIL AND NATURAL GAS PROPERTIES (Continued)

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

	Balance January 1, 2011	Expenditures	Balance December 31, 2011	Expenditures	Disposal	Balance September 30, 2012
Oil and natural gas properties						
Geological and geophysical	\$ -	\$ -	\$ -	\$ 690	\$ -	\$ 690
Leasehold costs	-	-	993,140	94,983	(154,602)	933,521
Lease and well equipment	-	-	29,461	-	-	29,461
Office equipment	-	-	-	985	-	985
TOTAL	\$ -	\$ -	\$ 1,022,601	\$ 96,658	\$ (154,602)	\$ 964,657

On April 30, 2012, the Company and its two joint Participation Agreement partners sold 27,283 acres of leasehold and received \$682,982, of which the Company has one-third interest. The cost of leasehold sold was \$154,602, resulting in a gain on sale of \$73,059.

6. SHARE CAPITAL AND RESERVES

(a) Authorized

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

(b) Details of issuances of common shares

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

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

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

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

6. SHARE CAPITAL AND RESERVES (Continued)

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

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

(c) Escrow shares

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

As at September 30, 2012, 20,824,250 common shares of the Company are held in escrow.

(d) Stock options

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

Expiry date	Exercise Price (\$CDN)	December 31, 2011	Issued	Exercised	September 30, 2012
May 21, 2013	\$ 0.30	123,333	-	-	123,333
August 18, 2013	\$ 0.30	50,000	-	-	50,000
December 1, 2016	\$ 0.35	1,470,000	-	-	1,470,000
Options outstanding and exercisable		1,643,333	-	-	1,643,333
Weighted average exercise price (\$CDN)		\$ 0.34	-	-	\$ 0.34

At September 30, 2012, the weighted average remaining contractual life of the stock options was 3.81 (December 31, 2011 – 4.56) years.

BIG SKY PETROLEUM CORPORATION

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

6. SHARE CAPITAL AND RESERVES (Continued)

(e) Warrants

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

*The first exercise price is until September 30, 2012 and the second exercise price is until September 30, 2013.

(1) Subsequently, 1,560,000 warrants granted on April 25, 2011 with original expiry date of October 25, 2012, were extended to expire on October 25, 2013.

At September 30, 2012, the weighted average remaining contractual life of the warrants is 0.95 (December 31, 2011 – 1.70) years.

(f) Finder's Unit Warrants

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

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

* Subsequently, these finder's unit warrants expired.

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

BIG SKY PETROLEUM CORPORATION

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

6. SHARE CAPITAL AND RESERVES (Continued)

(f) Finder's Unit Warrants (Continued)

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

At September 30, 2012, the weighted average remaining contractual life of the finder's unit warrants is 0.91 (December 31, 2011 – 1.66) years.

7. RELATED PARTY TRANSACTIONS AND BALANCES

The aggregate value of key management compensation is as follows:

For the nine months ended September 30, 2012:

	Short-term Benefits	Share-based Payments	Total
Milton Cox, Chief Executive Officer and Director ^(a)	\$ 90,000	\$ -	\$ 90,000
Sam Nastat, President ^(b)	\$ 90,000	\$ -	\$ 90,000
Mark T. Brown, Chief Financial Officer, Corporate Secretary and Director ^(c)	\$ 99,547	\$ -	\$ 99,547
George Robinson, Director	\$ 44,000	\$ -	\$ 44,000
Desmond Balakrishnan, Director ^(d)	\$ 38,779	\$ -	\$ 38,779

For the nine months ended September 30, 2011:

	Short-term Benefits	Share-based Payments	Total
Milton Cox, Chief Executive Officer and Director ^(a)	\$ -	\$ -	\$ -
Sam Nastat, President ^(b)	\$ -	\$ -	\$ -
Mark T. Brown, Chief Financial Officer, Corporate Secretary and Director ^(c)	\$ -	\$ -	\$ -
George Robinson, Director	\$ -	\$ -	\$ -
Desmond Balakrishnan, Director ^(d)	\$ -	\$ -	\$ -

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For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

7. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

Amounts due to related parties as at:

	Services for	September 30, 2012	December 31, 2011
Pacific Opportunity Capital Ltd. ^(c)	Rent, accounting and consulting services	\$ 23,256	\$ 18,839
McMillan LLP ^(d)	Legal	11,247	Nil
		\$ 34,503	\$ 18,839

(a) The Chief Executive Office is compensated by the consulting fees charged by CodeAmerica Investments LLC., a private company owned by the Chief Executive Officer.

(b) The President is compensated by the consulting fees charged by CNC Holdings Ltd., a private company owned by the President.

(c) Pacific Opportunity Capital Ltd., a company controlled by the Chief Financial Officer of the Company, charged for rent, accounting and consulting fees for an accounting and administrative team.

(d) McMillan LLP, a law firm in which the Company's director is a partner, charged for legal services.

Other:

SVI Security Solutions, a company of which 32.5% is owned by the Chief Executive Officer of the Company, charged \$3,626 (2011 - \$Nil) for web hosting and internet service fees.

8. FINANCIAL INSTRUMENTS

The fair values of the Company's accounts receivable (net of input tax credits receivable) and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of these instruments.

Amounts due to/from related parties approximate their fair value as they are due on demand.

The Company's financial instruments are exposed to certain financial risks, including foreign currency risk, credit risk, liquidity risk and interest risk.

(a) Foreign currency risk

The Company raises financing in Canadian dollars while incurring exploration costs on its Montana oil and gas properties as well as the majority of its administrative expenses in US dollars. The Company is therefore affected by changes in exchange rates between the Canadian dollar and US dollar currencies which may adversely affect the Company's financial position, results of operations and cash flows. The Company has net monetary assets of \$431,000 (December 31, 2011- \$4,622,000) denominated in Canadian dollars. A 6% change in the absolute rate of exchange in US dollars would affect its net loss by \$26,000.

BIG SKY PETROLEUM CORPORATION

(formerly Fox Resources Ltd.)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2012

(Expressed in US dollars, unless otherwise indicated; Unaudited)

8. FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk

The Company's cash is held in a Canadian financial institution and a US financial institution. The Company does not have any asset-backed commercial paper in its cash. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's accounts receivable consists primarily of joint interest partner's receivables and harmonized sales tax due from the federal government of Canada. The Company manages its joint interest partner's receivable by maintaining a close working relationship and monitoring the aging of such.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure.

Accounts payable and accrued liabilities and amounts due to related parties are due within the current operating period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash is limited because they are generally held to maturity. A 1% change in the interest rate, with other variables unchanged, would affect the Company by an annualized amount of interest equal to approximately \$27,000.

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

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

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,575,808	\$ -	\$ -	\$ 4,575,808

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9. MANAGEMENT OF CAPITAL RISK

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

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

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

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

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10. SEGMENTED INFORMATION

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

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

	Canada	US	Total
As at September 30, 2012			
Assets			
Oil and natural gas properties	\$ -	\$ 964,657	\$ 964,657
Prepaid expenses	2,331	5,112	7,443
Due from related party	-	-	-
Accounts receivable	6,844	77,968	84,812
Cash	2,741,137	1,834,671	4,575,808
	\$ 2,750,312	\$ 2,882,408	\$ 5,632,720
As at December 31, 2011			
Assets			
Oil and natural gas properties	\$ -	\$ 1,022,601	\$ 1,022,601
Prepaid expenses	10,335	21,612	31,947
Accounts receivable	14,957	86,457	101,414
Cash	4,948,325	928,919	5,877,244
	\$ 4,973,617	\$ 2,059,589	\$ 7,033,206
For the nine months ending September 30, 2012			
Loss for the period	\$ (221,979)	\$ (775,623)	\$ (997,602)
Capital expenditures	\$ -	\$ (96,658)	\$ (96,658)
For the nine months ending September 30, 2011			
Loss for the period	\$ -	\$ (1,109,980)	\$ (1,109,980)
Capital expenditures	\$ -	\$ (967,840)	\$ (967,840)

11. SUBSEQUENT EVENT

The Company entered the prolific Wolfcamp/Wolfberry play currently developing in the southern Midland Basin portion of the Permian Basin located in west Texas by acquiring 90% working interest in an initial lease block of 2,300+ net operated acres on the eastern shelf of the southern Midland Basin in West Texas.