



**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013**

*(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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Expressed in US dollars)

		<b>September 30, 2013</b>	<b>December 31, 2012</b>
	Notes	(Unaudited)	(Audited)
<b>Assets</b>			
Oil and natural gas properties	4	\$ 1,957,082	\$ 1,389,438
Reclamation bond	4	25,000	25,000
<b>Total non-current assets</b>		<b>1,982,082</b>	<b>1,414,438</b>
Prepaid expenses		11,556	12,041
Accounts receivable		56,845	48,780
Cash and cash equivalents		174,150	3,754,366
<b>Total current assets</b>		<b>242,551</b>	<b>3,815,187</b>
<b>Total assets</b>		<b>\$ 2,224,633</b>	<b>\$ 5,229,625</b>
<b>Shareholders' Equity</b>			
Share capital	5	\$ 10,190,960	\$ 10,190,960
Reserves	5	1,287,277	1,262,595
Deficit		(10,031,418)	(6,319,159)
<b>Total shareholders' equity</b>		<b>1,446,819</b>	<b>5,134,396</b>
<b>Liabilities</b>			
Due to related parties	6	465,659	26,500
Accounts payable and accrued liabilities		312,155	68,729
<b>Total current liabilities</b>		<b>777,814</b>	<b>95,229</b>
<b>Total shareholders' equity and liabilities</b>		<b>\$ 2,224,633</b>	<b>\$ 5,229,625</b>

These consolidated financial statements are authorized for issue by the Board of Directors on November 26, 2013.

They are signed on the Company's behalf by:

/s/Sam Nastat

Director

/s/Mark T. Brown

Director

See notes to condensed consolidated interim financial statements

# BIG SKY PETROLEUM CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

For the nine months ended September 30

(Expressed in US dollars)

(Unaudited)

	Notes	For the three months ended September 30,		For the nine months ended September 30,	
		2013	2012	2013	2012
<b>Exploration and evaluation expenses</b>		\$ (242,718)	\$ (62,495)	\$ (2,876,296)	\$ (350,948)
<b>General and administrative expenses</b>					
Wages		68,442	72,465	213,370	217,434
Office and administrative		34,442	41,481	153,809	149,106
Accounting, audit and legal fees		30,352	47,156	120,403	176,338
Travel		30,250	49,038	110,425	112,283
Investor relations		7,261	4,389	58,872	25,752
Transfer agent, listing and filing fees		2,165	8,051	17,229	25,035
Share-based payments	5(c)	-	-	13,300	-
		(172,912)	(222,580)	(687,408)	(705,948)
<b>Other items</b>					
Gain/(loss) on sale of oil and natural gas properties	4	(143,507)	-	(143,507)	73,059
Other income		530	2,175	8,322	17,229
Interest income		62	2,014	3,293	9,785
Foreign exchange (loss)		(141)	(94,213)	(16,663)	(40,779)
		(143,056)	(90,024)	(148,555)	59,294
<b>Net Loss</b>		(558,686)	(375,099)	(3,712,259)	(997,602)
Exchange differences on translation of foreign operations		(285)	110,597	11,382	119,638
<b>Total comprehensive loss for the period</b>		\$ (558,971)	\$ (264,502)	\$ (3,700,877)	\$ (877,964)
<b>Basic and diluted loss per share</b>		\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ (0.02)
<b>Weighted average number of common shares outstanding</b>		60,676,665	60,676,665	60,676,665	60,676,665

See notes to condensed consolidated interim financial statements

# BIG SKY PETROLEUM CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in US dollars)

Issued and outstanding:	Notes	Number of Shares	Share Capital	Reserves			Deficit	Total Shareholders' Equity
				Equity-settled Employee Benefits	Finder's Warrants	Foreign Currency Translation		
<b>Balance as at December 31, 2011</b> (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)
<b>Balance as at September 30, 2012</b> (Unaudited)		60,676,665	10,190,960	375,219	686,976	223,683	(5,909,969)	5,566,869
Share-based payments	5(c)	-	-	8,229	-	-	-	8,229
Net loss and comprehensive loss for the period		-	-	-	-	(31,512)	(409,190)	(440,702)
<b>Balance as at December 31, 2012</b> (Audited)		60,676,665	10,190,960	383,448	686,976	192,171	(6,319,159)	5,134,396
Share-based payments	5(c)	-	-	13,300	-	-	-	13,300
Net loss and comprehensive loss for the period		-	-	-	-	11,382	(3,712,259)	(3,700,877)
<b>Balance as at September 30, 2013</b> (Unaudited)		<b>60,676,665</b>	<b>10,190,960</b>	<b>396,748</b>	<b>686,976</b>	<b>203,553</b>	<b>(10,031,418)</b>	<b>1,446,819</b>

See notes to condensed consolidated interim financial statements

# BIG SKY PETROLEUM CORPORATION

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the nine months ended September 30

(Expressed in US dollars)

(Unaudited)

	<b>2013</b>	<b>2012</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss	\$ (3,712,259)	\$ (997,602)
Items not affecting cash:		
Share-based payments	13,300	-
Loss/(gain) on sale of oil and natural gas properties	143,507	(73,059)
	<u>(3,555,452)</u>	<u>(1,070,661)</u>
Changes in non-cash working capital items:		
Accounts receivable	(8,266)	17,161
Prepaid expenses	121	24,891
Accounts payable and accrued liabilities	244,804	(543,343)
Due from/to related parties	440,068	14,958
Net cash flows used in operating activities	<u>(2,878,725)</u>	<u>(1,556,994)</u>
<b>Investing activities</b>		
Oil and natural gas properties	(925,248)	(96,658)
Proceeds from disposal of oil and natural gas properties	214,097	227,661
Net cash flows used in investing activities	<u>(711,151)</u>	<u>131,003</u>
Effects of exchange rate changes on cash held in foreign currencies	9,660	124,555
<b>Change in cash</b>	<u>(3,580,216)</u>	<u>(1,301,436)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>3,754,366</u>	<u>5,877,244</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 174,150</u>	<u>\$ 4,575,808</u>
<b>Supplemental cash flow information:</b>		
Interest received	\$ 3,293	\$ 9,785

See notes to condensed consolidated interim financial statements

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

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

On November 30, 2011, the Company completed the acquisition of Big Sky Operating LLC ("Big Sky") by way of a reverse takeover acquisition, changed to its current name of Big Sky Petroleum Corporation and resumed trading under the symbol "BSP" on December 1, 2011 as an oil and gas company in the exploration stage. As a result of the reverse takeover acquisition, the Company is the legal parent and accounting subsidiary while Big Sky is the legal subsidiary and accounting parent. 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 the Company and Big Sky.

The Company is engaged in the exploration and development of oil and gas in Montana's Alberta Basin, commonly referred to as the Bakken source system as well as the Texas Midland Basin prospect located in the southeastern portion of the prolific Permian Basin in west Texas. The address of the Company's registered office is Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. However, there are several conditions that cast significant doubt on the Company's ability to continue as a going concern, including that, to date, the Company has not earned significant revenues and is considered to be in the exploration stage. The Company reported a net loss of \$3,712,259 for the nine months ended September 30, 2013 (2012 - \$997,602) and had an accumulated deficit of \$10,031,418 at September 30, 2013 (December 31, 2012 - \$6,319,159). The Company has no source of operating revenues and its capacity to operate as a going concern in the near-term will likely depend on its ability to continue raising equity financing.

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

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



# **BIG SKY PETROLEUM CORPORATION**

## **NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

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### **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, 2012 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.

### **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, 2012. 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 month period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

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### 4. OIL AND NATURAL GAS PROPERTIES

#### **Montana Projects**

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

##### **(a) Somont Farm-In Package**

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

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

The initial obligation well was drilled, and the subsequent wells were tied to a 180-day drilling obligation clock that started at the spud of the previous well. The second well was drilled in November 2011. Any additional wells drilled after these first two subsequent wells are then tied to a 90-day drilling obligation clock that, again, starts at the spud of the previous well drilled. There was no monetary penalty for Big Sky electing to discontinue drilling additional wells. The Farmout Agreement expired due to work commitments not being met. During the year ended December 31, 2012, the Company wrote-off \$90,123 of its expenditures related to the Somont farm-in wells.

##### **(b) Americana Acreage Block**

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

##### **(c) FX Block**

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

Effective February 2011, the Company signed a Joint Participation Agreement and Operating Agreement with FX Producing Company, Inc. and American Eagle Energy Inc. to explore in the Alberta Bakken region of Montana with an undivided 33.33% interest each.

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

On April 30, 2013, Big Sky and its two joint Participation Agreement partners signed a Purchase and Sale Agreement with American Midwest Oil and Gas ("AMOG") to sell certain of its oil and gas leasehold interests in Toole County Montana for a total Purchase Price of \$642,292, of which the Company had a one-third interest. The cost of leasehold sold was \$357,604, resulting in a loss on sale of \$143,507.

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

### 4. OIL AND NATURAL GAS PROPERTIES (Continued)

#### Texas Project

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

As of September 30, 2013, the Company had a reclamation bond of \$25,000 and is expected to be released after all reclamation work has been completed with regard to the Texas project.

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

Oil and natural gas properties	Balance December 31 2011 (Audited)	Expenditures/ write-off	Depreciation	Disposal	Balance December 31 2012 (Audited)	Expenditures/ deposit	Disposal	Balance September 30 2013 (Unaudited)
<b>Montana</b>								
Leasehold costs	\$ 993,140	\$ 102,827	\$ -	\$ (154,602)	\$ 941,365	\$ 12,676	\$ (357,604)	\$ 596,437
Lease and well equipment	29,461	-	(10,604)	-	18,857	-	-	18,857
Office equipment	-	985	(591)	-	394	463	-	857
Geological & Geophysical	-	-	-	-	-	1,850	-	1,850
Performance deposit	-	-	-	-	-	-	-	-
Write-off of oil and natural gas properties	-	(90,123)	-	-	(90,123)	-	-	(90,123)
	<u>1,022,601</u>	<u>13,689</u>	<u>(11,195)</u>	<u>(154,602)</u>	<u>870,493</u>	<u>14,989</u>	<u>(357,604)</u>	<u>527,878</u>
<b>Texas</b>								
Leasehold costs	-	518,945	-	-	518,945	614,860	-	1,133,805
Lease and well equipment	-	-	-	-	-	295,399	-	295,399
	<u>-</u>	<u>518,945</u>	<u>-</u>	<u>-</u>	<u>518,945</u>	<u>910,259</u>	<u>-</u>	<u>1,429,204</u>
<b>TOTAL</b>	<b>\$ 1,022,601</b>	<b>\$ 532,634</b>	<b>\$ (11,195)</b>	<b>\$ (154,602)</b>	<b>\$ 1,389,438</b>	<b>\$ 925,248</b>	<b>\$ (357,604)</b>	<b>\$ 1,957,082</b>

### 5. SHARE CAPITAL AND RESERVES

#### (a) Authorized

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

#### (b) 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, 2013, 12,494,550 (December 31, 2012 – 16,659,400) common shares of the Company are held in escrow.

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

### 5. SHARE CAPITAL AND RESERVES (Continued)

#### (c) 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	Price (\$CDN)	December 31, 2012	Granted	Exercised	Expired/ Cancelled	September 30, 2013
May 21, 2013	\$ 0.30	123,333	-	-	(123,333)	-
August 18, 2013	\$ 0.30	50,000	-	-	(50,000)	-
March 15, 2014	\$ 0.25	-	150,000	-	(150,000)	-
December 1, 2016 *	\$ 0.35	1,470,000	-	-	(5,000)	1,465,000
November 29, 2017	\$ 0.12	80,000	-	-	-	80,000
January 7, 2018	\$ 0.12	-	100,000	-	-	100,000
Options outstanding and exercisable		1,723,333	250,000	-	(328,333)	1,645,000
Weighted average exercise price (\$CDN)	\$	0.33	-	-	-	\$ 0.32

\*Subsequently, another 15,000 options were cancelled.

At September 30, 2013, the weighted average remaining contractual life of the stock options was 3.29 (December 31, 2012 – 3.62) years.

Subsequently, another 250,000 options were granted to a consultant of the Company at an exercise price of Cdn\$0.12, expiring on October 17, 2016.

The weighted average assumptions used to estimate the fair value of options for the periods ended September 30, 2013 and 2012 were:

	2013	2012
Risk-free interest rate	0.99% - 1.47%	Nil
Annualized volatility	144.38% - 133.87%	Nil
Expected dividend yield	Nil	Nil
Expected option life in years	1 - 5 years	Nil

Based on these variables, share-based payments for the options vested during the period ended September 30, 2013 were \$13,300 (2012 - \$Nil).

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

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

### 5. SHARE CAPITAL AND RESERVES (Continued)

#### (d) Warrants

Expiry date	Exercise price (\$CDN)	December 31, 2012	Issued	Exercised	Expired	September 30, 2013
September 30, 2013	\$ 0.80	285,713	-	-	(285,713)	-
October 25, 2013 *	\$ 0.45	1,560,000	-	-	-	1,560,000
September 30, 2015 <sup>(1)</sup>	\$ 0.25	25,714,285	-	-	-	25,714,285
Warrants outstanding		27,559,998	-	-	(285,713)	27,274,285
Weighted average exercise price (\$CDN)		\$ 0.78	-	-	-	\$ 0.26

\* Subsequently, these warrants were extended to expire on October 25, 2015 at exercise price of Cdn\$0.25.

<sup>(1)</sup> During the nine months ended September 30, 2013, 25,714,285 warrants granted on November 30, 2011 with an original expiry date of September 30, 2013 at exercise price of Cdn\$0.80, were extended to expire September 30, 2015 at exercise price of Cdn\$0.25.

At September 30, 2013, the weighted average remaining contractual life of the warrants is 1.89 (December 31, 2012 – 0.75) years.

#### (e) 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, 2012	Issued	Exercised	Expired	September 30, 2013
September 30, 2013 <sup>(1)</sup>	\$ 0.35	1,830,070	-	-	1,830,070	-
Finder's unit warrants outstanding		1,830,070	-	-	-	-
Weighted average exercise price (\$CDN)		\$ 0.35	-	-	-	\$ -

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

At September 30, 2013, the weighted average remaining contractual life of the finder's unit warrants is Nil (December 31, 2012 – 0.75) years.

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

### 6. RELATED PARTY TRANSACTIONS AND BALANCES

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

<b>For the nine months ended September 30, 2013</b>	Short-term employee benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director	\$ 301,256	\$ -	\$ 301,256
<b>Total</b>	<b>\$ 301,256</b>	<b>\$ -</b>	<b>\$ 301,256</b>

<b>For the nine months ended September 30, 2012</b>	Short-term employee benefits	Share-based Payments	Total
Companies controlled by Chief Executive Officer, President, Chief Financial Officer and a Director	\$ 279,547	\$ -	\$ 279,547
Directors	82,779	-	82,779
<b>Total</b>	<b>\$ 362,326</b>	<b>\$ -</b>	<b>\$ 362,326</b>

<b>Due to related parties</b>	Services for	September 30, 2013	December 31, 2012
Company controlled by officers	Rent, accounting and financial services	\$ 25,803	\$ 23,640
Company controlled by a director	Legal	11,662	2,860
Joint Participation Agreement partners (Note 4)	Performance deposits	428,194	-
<b>Total</b>		<b>\$ 465,659</b>	<b>\$ 26,500</b>

#### Other:

SVI Security Solutions, a company of which 32.5% is owned by the Chief Executive Officer of the Company, charged \$4,080 (2012 - \$3,626) for web hosting and internet service fees.

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

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### 7. FINANCIAL INSTRUMENTS

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

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

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

#### (a) Foreign currency risk

The Company raises financing in Canadian dollars while incurring exploration costs on its oil and gas properties as well as the majority of its administrative expenses in US dollars. The Company is therefore affected by changes in exchange rates between the Canadian dollar and US dollar, which may adversely affect the Company's financial position, results of operations and cash flows. The Company has net monetary liabilities of \$35,000 (December 31, 2012 – net monetary assets of \$160,000) denominated in Canadian dollars. A 6% change in the absolute rate of exchange in US dollars would affect its net loss by \$2,100.

#### (b) Credit risk

The Company's cash is held in a Canadian financial institution and a US financial institution. Credit risk is managed by using major banks that are high credit quality financial institutions as determined by ratings agencies. The Company's accounts receivable consists primarily of joint interest partner's receivables and harmonized sales tax due from the federal government of Canada. The Company manages its joint interest partner's receivable by maintaining a close working relationship and monitoring the aging of such.

#### (c) Liquidity risk

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

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

#### (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 \$200.

# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

### 7. FINANCIAL INSTRUMENTS (Continued)

#### (d) Interest rate risk (Continued)

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

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

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

September 30, 2013	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 174,150	\$ -	\$ -	\$ 174,150

  

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

### 8. MANAGEMENT OF CAPITAL RISK

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

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

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

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



# BIG SKY PETROLEUM CORPORATION

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the nine months ended September 30, 2013

(Expressed in US dollars, unless otherwise indicated)

(Unaudited)

### 9. 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	USA	Total
<b>As at September 30, 2013</b>			
Assets			
Oil and natural gas properties	\$ -	\$ 1,957,082	\$ 1,957,082
Reclamation bond	-	25,000	25,000
Prepaid expenses	10,110	1,446	11,556
Accounts receivable	2,394	54,451	56,845
Cash	17,154	156,996	174,150
	\$ 29,658	\$ 2,194,975	\$ 2,224,633
<b>As at December 31, 2012</b>			
Assets			
Oil and natural gas properties	\$ -	\$ 1,389,438	\$ 1,389,438
Reclamation bond	-	25,000	25,000
Prepaid expenses	10,595	1,446	12,041
Accounts receivable	5,846	42,934	48,780
Cash	2,697,059	1,057,307	3,754,366
	\$ 2,713,500	\$ 2,516,125	\$ 5,229,625
<b>For the nine months ended September 30, 2013</b>			
Loss for the period	\$ (232,895)	\$ (3,479,364)	\$ (3,712,259)
Capital expenditures	\$ -	\$ (925,248)	\$ (925,248)
<b>For the nine months ended September 30, 2012</b>			
Loss for the period	\$ (221,979)	\$ (775,623)	\$ (997,602)
Capital expenditures	\$ -	\$ (96,658)	\$ (96,658)