49NORTH RESOURCES INC

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

September 30, 2012

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim financial statements have been prepared by management.

The company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

49 North Resources Inc.
Condensed Consolidated Interim Statement of Financial Position
(unaudited – in thousands of Canadian dollars)

		September 30 2012		December 31 2011
ASSETS				
Current assets				
Cash and cash equivalents	$	-	$	440
Equity instruments, at fair value (Note 3)		31,510		39,992
Loans and advances receivable (Note 4)		6,582		6,205
Managment fees receivable (Note 9)		137		78
Accounts receivable and prepaid expenses		3,057		3,313
		41,286		**50,028**
Non-current assets				
Exploration and evaluation assets (Note 5)		15,126		11,101
Goodwill (Note 6)		1,368		2,017
Property, plant and equipment (Note 7)		22,896		20,821
Total assets	**$**	**80,676**	**$**	**83,967**
LIABILITIES				
Current liabilities				
Bank indebtedness (Note 8)	$	4,316	$	-
Accounts payable and accrued liabilities		8,878		8,340
Income taxes payable		95		48
		13,289		**8,388**
Non-current liabilities				
Convertible debentures (Note 10)		14,246		13,505
Loans payable (Note 11)		2,179		1,240
Promissory note payable (Note 12)		59		398
Decommissioning liabilties (Note 13)		1,522		525
Other Liability		64		219
Deferred income tax liabilities (Note 14)		4,187		4,348
Total liabilities		**35,546**		**28,623**
Commitments and contingencies (Note 17)				
EQUITY				
Common shares (Note 15)		58,064		57,235
Contributed surplus (Note 15)		2,944		3,958
Equity portion of convertible debentures (Note 10)		1,516		1,516
Retained earnings (deficit)		(19,592)		(10,070)
		42,932		**52,639**
Non-controlling interest		**2,198**		**2,705**
Total liabilities and equity	**$**	**80,676**	**$**	**83,967**

Approved by the Board

"Tom MacNeill" — Director

"Steve Halabura" — Director

49 North Resources Inc.
Condensed Consolidated Interim Statement of (Loss) Income
(unaudited – in thousands of Canadian dollars, except securities and per share amounts)

	For the three months ended September 30		For the nine months ended September 30	
	2012	2011	2012	2011
Revenues				
Geological and other consulting	$ 4,345	$ 872	$ 7,950	$ 3,093
Oil and gas sales	1,694	1,565	5,542	4,652
Realized gains (losses)	(633)	3,162	(1,833)	8,375
Unrealized (losses) gains	715	(6,258)	(2,599)	(11,733)
Royalty income	14	16	74	76
Interest and dividend income	147	197	502	607
	6,282	**(446)**	**9,636**	**5,070**
Expenses				
Amortization and depletion	664	839	2,005	1,851
Business and investor relations	151	149	522	716
Finance	996	750	2,625	1,695
Management fees (Note 9)	214	315	925	911
General and administration	481	497	1,521	1,273
Oil and gas operations	872	668	2,379	1,764
Professional fees	165	205	603	550
Project costs	3,308	204	5,299	871
Share based compensation (Note 15)	-	8	-	573
Transaction costs	15	44	700	905
Wages and benefits	709	558	2,303	1,723
	7,575	**4,237**	**18,882**	**12,832**
(Loss) income before income taxes	**(1,293)**	**(4,683)**	**(9,246)**	**(7,762)**
Current income tax (recovery)	57	(27)	136	37
Deferred income tax (recovery)	(145)	(39)	(317)	(560)
Net (loss) income	**$ (1,205)**	**$ (4,617)**	**$ (9,065)**	**$ (7,239)**
Net (loss) income to common shareholders	**(1,228)**	**(4,628)**	**(8,805)**	**(7,315)**
Net income (loss) to non-controlling interest	23	11	(260)	76
Net (loss) income	**$ (1,205)**	**$ (4,617)**	**$ (9,065)**	**$ (7,239)**
Basic (loss) earnings per share	**$ (0.08)**	**$ (0.30)**	**$ (0.57)**	**$ (0.48)**
Diluted (loss) earnings per share	**$ (0.08)**	**$ (0.30)**	**$ (0.57)**	**$ (0.48)**
Weighted average number of shares outstanding	**15,728,125**	**15,512,890**	**15,775,281**	**14,996,987**

9 North Resources Inc.
Condensed Consolidated Interim Statement of Changes in Equity
(unaudited – in thousands of Canadian dollars)

	Common Shares		Share Capital		Contributed Surplus		Equity portion of convertible debentures		Deficit		Total Equity
Balance, January 1, 2011	**12,298**	**$**	**47,234**	**$**	**2,620**	**$**	**1,440**	**$**	**738**	**$**	**52,032**
2010 Fund unit exchange	2,714		8,106		-		-		-		8,106
Warrants excercised	509		1,923		(355)		-		-		1,568
Stock options excercised	34		137		(67)		-		-		70
Investment in subsidiary	-		-		(386)		-		-		(386)
Stock options issued	-		-		557		-		-		557
Shares repurchased and cancelled	(48)		(135)		-		-		-		(135)
Share issue costs (net of tax)	-		(24)		-		-		-		(24)
Issuance of convertible debentures	-		-		-		1,729		-		1,729
Retirement of convertible debentures	-		-		735		(735)		-		-
Dividends paid	-		-		-		-		(390)		(390)
Net loss and comprehensive loss	-		-		-		-		(7,316)		(7,316)
Balance, September 30, 2011	**15,507**	**$**	**57,241**	**$**	**3,104**	**$**	**2,434**	**$**	**(6,968)**	**$**	**55,811**

	Common Shares		Share Capital		Contributed Surplus		Equity portion of convertible debentures		(Deficit)		Total Equity
Balance, January 1, 2012	**15,505**	**$**	**57,235**	**$**	**3,958**	**$**	**1,516**	**$**	**(10,070)**	**$**	**52,639**
Investment in subsidiary	-		-		(1,014)		-		-		(1,014)
Shares issued	288		938		-		-		-		938
Shares repurchased and cancelled	(55)		(109)		-		-		-		(109)
Dividends paid	-		-		-		-		(717)		(717)
Net loss and comprehensive loss	-		-		-		-		(8,805)		(8,805)
Balance, September 30, 2012	**15,738**	**$**	**58,064**	**$**	**2,944**	**$**	**1,516**	**$**	**(19,592)**	**$**	**42,932**

49 North Resources Inc.
Condensed Consolidated Interim Statement of Cash Flows
(unaudited – in thousands of Canadian dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2012	2011	2012	2011
Cash flows from Operating Activities				
Net (loss) income	$ (1,206)	$ (4,617)	$ (9,065)	$ (7,239)
Items not affecting cash				
Realized loss (gains)	633	(3,162)	1,833	(8,375)
Amortization and depletion	663	839	2,005	1,851
Deferred income recovery	(145)	(39)	(317)	(560)
Accretion of convertible debentures	247	247	741	594
Stock based compensation	-	8	-	573
Goodwill impairment	-	-	649	253
Unrealized (gains) losses	(715)	6,259	2,599	11,733
Net changes in non-cash working capital items related to operations:	3,917	(1,383)	1,672	(3,448)
	3,394	**(1,848)**	**117**	**(4,618)**
Cash flows from Investing Activities				
Purchase of capital assets	(722)	(3,421)	(4,871)	(7,177)
Payables relating to capital assets	-	3,409	-	3,409
Proceeds from disposal of capital assets	125	1,945	375	1,945
Purchase of investments	(278)	(4,825)	(2,072)	(16,010)
Proceeds from disposal of investments	1,103	3,733	6,258	18,415
Purchase of mineral property and deposits	(176)	(3,129)	(4,025)	(7,320)
Loan (repayments) advances	25	1	600	1,048
Cash received on amalgamation	-		-	4,847
Acquisition of subsidiary (net of cash)	-	-	(1,250)	-
	77	**(2,287)**	**(4,985)**	**(843)**
Cash flows from Financing Activities				
Issuance of common shares	-	4	938	1,639
Issuance of convertible debenture	-	1,615	-	11,500
Repurchase of common shares	(73)	(20)	(109)	(135)
Repayment of long-term debt	-	(5,077)	-	(7,222)
Dividends paid	(86)	-	(717)	-
Share and debenture issuance costs	-	(52)	-	(553)
	(159)	**(3,530)**	**112**	**5,229**
Net change in cash during the period	**3,312**	**(7,665)**	**(4,756)**	**(232)**
Cash, beginning of period	(7,628)	8,959	440	1,526
Cash, end of period	**$ (4,316)**	**$ 1,294**	**$ (4,316)**	**$ 1,294**
Cash consists of:				
Cash and cash equivalents			$ 3,265	$ 1,294
Bank indebtedness			(7,581)	-
			$ (4,316)	**$ 1,294**

1. Description of business

49 North Resources Inc. (the "Corporation") is a resource investment, financial, managerial and geological advisory, and merchant banking Corporation which, as its principal business, invests in a diversified portfolio of shares and other securities of resource issuers including, without limitation, resource issuers engaged in mineral or oil and gas exploration and development, with a view to achieving capital appreciation of the portfolio. In addition, the Corporation may take control positions and play a management role in selected resource issuers and/or become directly or indirectly involved in the acquisition, development and commercialization of resource properties through one or more subsidiaries, joint ventures, farm-in or other arrangements that may be established for such purposes.

The Corporation is domiciled in the Province of Saskatchewan, Canada and its office address is at Suite 602 – 224 4th Avenue South, Saskatoon, Saskatchewan, Canada, S7K 5M5.

2. Significant accounting policies

The significant accounting policies used in the presentation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Statement of compliance

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using accounting policies consistent with International Financial Reporting Standards which the Corporation adopted in its annual consolidated financial statements as at and for the year ended December 31, 2011.

The same accounting policies and methods of computation were followed in the preparation of these interim consolidated statements as were followed in the preparation and described in note 2 of the annual consolidated financial statements as at and for the year ended December 31, 2011. Accordingly, these interim consolidated statements for the nine month periods ended and as at September 30, 2012 and 2011 should be read together with the annual consolidated financial statements as at and for the year ended December 31, 2011.

Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value. These financial statements are prepared in Canadian dollars, which is the Corporation's functional currency. Certain of the comparative figures have been reclassified to conform with the current period presentation.

Basis of consolidation

These consolidated financial statements include the accounts of the Corporation's 50% owned subsidiary North Rim Exploration Ltd. ("North Rim"), its 100% owned subsidiary Allstar Energy Limited ("Allstar"), its 80% owned subsidiary Kimpar Resources Inc. ("Kimpar"), its 50% joint interest in Vicarage Capital Corp. ("Vicarage"), its 100% owned subsidiary 101197165 Saskatchewan Ltd. (101197165 SK), its 100% owned subsidiary 101197166 Saskatchewan Ltd. (101197166 SK) and its special purpose entity Newsk Emerging Resources Ltd. ("Newsk"). All inter-Corporation accounts have been eliminated on consolidation. Investments are consolidated where the Corporation has the ability to exercise control. Control is achieved when the Corporation has the power to govern the financial and operating policies of the entity. For non wholly-owned subsidiaries, the net assets attributable to outside equity shareholders are presented as "non-controlling interests" in the equity section of the consolidated statement of financial position. Joint ventures are proportionately consolidated.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

3. Equity investments

As at September 30, 2012, the Corporation's investments consist of the following:

	September 30, 2012		December 31, 2011	
	Cost	FMV	Cost	FMV
Base and Precious Metals	14,621	17,881	19,644	19,353
Coal	5,856	1,375	5,516	2,208
Diamonds	493	167	1,529	860
Oil & Gas	7,393	9,440	9,162	11,713
Other	3,422	2,205	5,092	4,049
Uranium	1,846	442	1,962	1,161
Futures contracts	-	-	-	648
	$ 33,631	**$ 31,510**	**$ 42,905**	**$ 39,992**

4. Loans and advances receivable

	September 30, 2012	December 31, 2011
CVG Mining Ltd.	$ 5,343	$ 5,400
How 2 Energy Ltd.	130	170
49 North 2011 Resource Flow-Through LP	672	608
49 North 2012 Resource Flow-Through LP	170	-
101197159 Saskatchewan Ltd.	115	-
101203802 Saskatchewan Ltd.	115	-
Unrelated individuals	21	27
Purcell Range Exploration inc.	16	-
	$ 6,582	**$ 6,205**

The CVG Mining Ltd. loan is due on demand, bears interest at 4.25% and is secured by certain mineral claims. The How 2 Energy Ltd. loan is due on demand and bears interest at a rate of prime plus 2%. The loan to the 49 North 2011 Resource Flow-Through LP and the 49 North 2012 Resource Flow-Through LP bears interest at prime plus 2% and is secured by all of the assets of the LP. The loans to unrelated individuals bear interest at rates between prime plus 2% and prime plus 5%.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

5. Exploration and evaluation assets

	Manitoba	Saskatchewan	British Columbia	Quebec	Total
Balance, January 1, 2011	**$ 146**	**$ 13**	**$ 4,000**	**$ 1,822**	**$ 5,981**
Exercise of option agreement	-	-	(4,000)	-	**(4,000)**
Exploration	-	838	7,302	980	**9,120**
Balance, December 31, 2011	**$ 146**	**$ 851**	**$ 7,302**	**$ 2,802**	**$ 11,101**
Exploration	-	1,628	2,088	309	**4,025**
Balance, September 30, 2012	**$ 146**	**$ 2,479**	**$ 9,390**	**$ 3,111**	**$ 15,126**

Manitoba properties

In fiscal 2010, the Corporation applied for and was granted coal permits with the Government of Manitoba and has initiated airborne analysis of these possible permit locations.

On April 27, 2010, the Corporation and Westcore Energy Inc. (“Westcore”) entered into a binding agreement for the sale of an interest in the permits. Under the agreement, Westcore initially acquired a 50% interest in the property covered by the permits, together with all rights attaching to them with the ability to increase this interest to as much as 80%. The consideration payable to the Corporation under the agreement consisted of the issuance of an aggregate of 1,000,000 common shares in the capital of Westcore, together with an unsecured demand promissory note in the amount of $257, which was subsequently received. Under the agreement, Westcore will operate all exploration and drilling activities in respect of the property and will bear responsibility for all exploration expenditures and related costs until such time as a bankable feasibility study is completed. Westcore is obliged to expend not less than $500 on exploration expenses in respect of the properties during its 2010 – 2011 exploration program and will earn additional interest in these property based upon the following: (a) provided that Westcore incurs and pays exploration expenditures in excess of $1,000 on or before December 31, 2012 (met), Westcore will earn a further 10% interest in the property; and (b) provided that Westcore completes a bankable feasibility study in respect of the property on or before December 31, 2013, Westcore will earn a further 20% interest in the property. As Westcore has met the 2012 exploration requirement, it now holds a 60% interest in the property.

British Columbia properties

The Corporation entered into an option agreement to acquire up to a 40% undivided interest in certain mineral rights located in the province of British Columbia. Under the terms of the agreement, for every $100 of expenditures incurred during the option period, the Corporation will acquire a 1% undivided interest in the property. In addition, the Corporation was granted a 2.5% net smelter returns royalty on the mineral claims covered under the agreement. The Corporation exercised its option agreement and converted $4,000 of exploration assets for a 40% equity interest in CVG Mining Ltd. The Corporation has entered into a new agreement with CVG Mining Ltd. under substantially similar terms.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

5. Exploration and evaluation assets (continued)

Saskatchewan properties

The Corporation has working interests in producing and non-producing light oil lands near Kindersley and heavy oil lands near North Battleford and Leader.

Quebec properties

The Corporation, through its 80% ownership of its subsidiary Kimpar, holds an interest in certain mineral rights related to copper, molybdenum, industrial metals and quarry product properties in the Gaspe region of the Province of Quebec, inclusive of nine asset purchase agreements. Under these asset purchase agreements, the Corporation is committed to conduct exploration work representing capital expenditures in the amount of $2,900 over the next four years, and has minimum annual statutory obligations of $13 and annual minimum work commitments of $174 in order to keep its various claims in good standing.

6. Goodwill

		September 30, 2012		December 31, 2011
Balance, beginning of year	$	2,017	$	1,621
Acquisitions		-		649
Impairment of goodwill		(649)		(253)
Balance, end of period	**$**	**1,368**	**$**	**2,017**

At September 30, 2012, goodwill represents the excess of total purchase price over the net identifiable assets and liabilities of North Rim, Allstar, and Newsk. As North Rim, AllStar, Vicarage and Newsk are considered to be separate reporting units, goodwill related to each was tested in conjunction with the long lived assets of these reporting units and it was determined that a write down was required related to the goodwill attributable to the acquisition of Vicarage due to the significant downturn in the capital markets of the United Kingdom. The Corporation used the value in use method to evaluate the carrying amount of goodwill. The key assumptions used in the assessment include an estimate of current cash flow, taxes, and a growth rate of 2% and capital maintenance expenditures, discounted at 10%. These assumptions are based on past experiences.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

7. Property, plant and equipment

	Total	Oil & gas interests	Processing facility, equipment, and gas line	Other Corporate Assets
Cost:				
Balance at January 1, 2011	17,190	14,094	2,384	712
Additions	9,960	7,853	2,047	60
Dispositions	(106)	(14)	-	(92)
Write down of carry amount	(430)	(430)	-	-
Balance at December 31, 2011	26,614	21,503	4,431	680
Additions	4,871	3,160	1,487	224
Dispositions	(2,092)	(2,087)	-	(5)
Balance at September 30, 2012	**29,393**	**22,576**	**5,918**	**899**
Accumulated depletion and depreciation				
Balance at January 1, 2011	4,463	3,813	264	386
Depletion/depreciation expense	1,401	856	399	146
Dispositions	(71)	-	-	(71)
Balance at December 31, 2011	5,793	4,669	663	461
Depletion/depreciation expense	2,005	1,444	458	103
Dispositions	(1,301)	(1,301)	-	-
Balance at September 30, 2012	**6,497**	**4,812**	**1,121**	**564**
Total balance at September 30, 2012	**22,896**	**17,764**	**4,797**	**335**

The Corporation, through its subsidiary Allstar, controls approximately 58,000 acres of land with 100% of the rights to explore for, and develop petroleum and natural gas, as well as approximately 640 acres of land where Allstar owns 50% of the natural gas rights. Through its working interest agreement with Allstar, the Corporation has a 63% working interest in five oil and gas wells and a 53.11% working interest in an additional five oil and gas wells in the Kindersley oil field in West-Central Saskatchewan.

The Corporation, through a working interest agreement with a private Saskatchewan oil and gas Corporation, has a 50% working interest in two oil and gas wells in Southeast Saskatchewan.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

7. Property, plant and equipment (continued)

Petroleum properties

The Corporation performed a ceiling test calculation at December 31, 2011 to assess the recoverability of its petroleum and natural gas interest. Based on the calculation performed it was determined that no impairment exists. The following projected prices for oil and natural gas were used for asset impairment tests:

Year	Oil Price	Natural Gas Price
2012	92.12	2.75
2013	87.84	3.62
2014	86.95	3.99
2015	90.69	4.91
2016	99.37	6.07
2017	101.35	6.19
2018	103.38	6.32
2019	105.45	6.44
2020	107.56	6.57
2021	109.71	6.70
2022	111.90	6.84

8. Bank indebtedness

Bank indebtedness consists of the Corporations' cash balance, cash in brokerage accounts, operating line of credit, margin borrowing secured by the Corporation's investments held at each brokerage house and the operating line of credit of Allstar. Interest is charged on the daily outstanding balance at a tiered rate equal to the brokerage houses overnight rate plus a percentage ranging from 2.0% to 2.5% depending on the amount of margin used. As at September 30, 2012, the Corporations cash balance and brokerage cash was $3,265, its bank indebtedness was nil and had margin borrowings of nil. As at September 30, 2012 Allstar's bank indebtedness was $7,581 (September 30, 2011 - nil).

9. Related party transactions

Compensation of key executive personnel

	September 30, 2012	September 30, 2011
Management fees to TMM Portfolio Management Inc.	$ 731	$ 898
Salaries to officers	150	150
Directors fees	45	52
Stock based compensation to directors and officers	-	400
	$ 926	$ 1,500

TMM is responsible for the management of the Corporation's investment portfolio in accordance with the terms of a portfolio management agreement made January 1, 2008 (the "Management Agreement") and is to be reimbursed by the Corporation for all expenses reasonably and properly incurred in conducting the Corporation's business and in performing its duties and obligations under the Management Agreement. Additionally, pursuant to the Management Agreement, TMM: (a) is entitled to a quarterly management fee equal to 0.5% of the net asset value of the Corporation calculated as of the last business day of the relevant fiscal quarter; and (b) starting with the Corporation's fiscal year ended December 31, 2008, an annual performance bonus, calculated as of the last

9. Related party transactions (continued)

business day of the applicable fiscal year, in an amount in respect of each common share that is outstanding as of such day, equal to 20% of the amount, if any, by which the sum of the net asset value per common share as of that date, plus all dividends per common share during that fiscal year, exceeds the greater of $16.34 and the net asset value per common share as of the last business day of the preceding fiscal year

<u>Related party transactions</u>

During the nine month period ended September 30, 2012 reimbursements of $147 (2011 - $153) were incurred or accrued to 1381613 Alberta Ltd., a corporation controlled by the CEO of the Corporation. As at September 30, 2012, the Corporation had $137 receivable (2011 – $78 receivable) from TMM.

These transactions are recorded at the exchange amounts agreed to by the parties.

10. Convertible debentures

a) On June 29, 2011 and July 11, 2011 the Corporation raised proceeds of $11,500 on the short form prospectus offering of 8% convertible unsecured debentures. The debentures have a three-year term, maturing June 29, 2014, and bear interest from the date of issuance at 8% per annum which, unless the debentures are earlier converted or redeemed in accordance with their terms, will be paid on June 29 in each of 2012, 2013 and on maturity.

The debentures are convertible, at the option of the respective holders, at any time or from time to time prior to 5:00 p.m. (Toronto time) on June 29, 2014, into fully paid, non-assessable common shares of the Corporation at a conversion price of $4.50 per common share.

Subject to certain conditions precedent, the Corporation may redeem the debentures prior to maturity at a redemption price equal to their principal amount plus interest accruing to but otherwise unpaid to the date preceding the redemption date plus a premium equal to 6% of the outstanding principal amount if redeemed prior to June 29, 2012, 4% of the outstanding principal amount if redeemed on or after June 29, 2012 but before June 29, 2013, or 2% of the outstanding principal amount if redeemed on or after June 29, 2013 and prior to maturity.

b) On September 23, 2010 and October 13, 2010, the Corporation raised proceeds of $4,691 on the private placement of 8% convertible unsecured debentures. The debentures have a three-year term, maturing September 23, 2013, and bear interest from the date of issuance at 8% per annum which, unless the debentures are earlier converted or redeemed in accordance with their terms, will be paid on September 23 in each of 2011, 2012 and on maturity.

The debentures are convertible, at the option of the respective holders, at any time or from time to time prior to 5:00 p.m. (Toronto time) on September 23, 2013, into fully paid, non-assessable common shares of the Corporation at a conversion price of: (i) $4.00 per share if converted prior to September 23, 2011; (ii) $4.25 per share if converted on or after September 23, 2011 and before September 23, 2012; and, (iii) $4.50 per share if converted on or after September 23, 2012 and prior to the conversion expiry time.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

10. Convertible debentures (continued)

Subject to certain conditions precedent, the Corporation may redeem the debentures prior to maturity at a redemption price equal to their principal amount plus interest accruing to but otherwise unpaid to the date preceding the redemption date plus a premium equal to 6% of the outstanding principal amount if redeemed prior to September 23, 2011, 4% of the outstanding principal amount if redeemed on or after September 23, 2011 but before September 23, 2012, or 2% of the outstanding principal amount if redeemed on or after September 23, 2012 and prior to maturity.

	September 30, 2012	December 31, 2011
Face value of convertible debentures	$ 16,191	$ 16,191
Plus: accretion	1,582	841
Less: debt issue costs	(964)	(964)
Less: deferred income tax on equity portion	(1,047)	(1,047)
Equity portion of convertible debenture	(1,516)	(1,516)
Less, current portion of convertible debenture	-	-
	$ 14,246	**$ 13,505**

11. Loans payable

Loans payable include various loans that bear interest at a range of 0% - 8% and have no specific terms of repayment. Loans which are unsecured and demand in nature are classified as a current liability.

12. Promissory notes payable

As part of the acquisition of North Rim, the Corporation issued a $375 promissory note payable to the vendor. Interest is charged at the Royal Bank of Canada prime rate plus 2%. Principal and interest payments will be repaid in no more than eight semi-annual consecutive installments which will be based on a percentage of net earnings of North Rim. Any amount still payable after the eighth semi-annual period will be waived by the vendor. The promissory note is secured by the North Rim shares acquired. As at September 30, 2012, $316 of principle payments had been made on the promissory note.

13. Decommissioning liabilities

	September 30, 2012	December 31, 2011
Balance, beginning of year	**$ 525**	**$ 169**
Liabilties incurred	1,023	343
Liabilities disposed	(45)	-
Accretion expense	19	13
Balance, end of year	**$ 1,522**	**$ 525**

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

13. Decommissioning liabilities (continued)

The total of the decommissioning liabilities are estimated based on the Corporation's net ownership interest in all the wells and facilities, the estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Corporation has estimated that based on their net ownership interest, the total undiscounted cash flows required to settle the obligations will be $1,554. The obligations have been discounted using a credit adjusted risk free rate of 4% and an inflation rate of 2% per year. Most of these obligations are not expected to be paid until approximately 15 years in the future and will be funded from general Corporation resources at that time.

14. Deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Corporation's future assets and liabilities are as follows:

	September 30, 2012	December 31, 2011
Non-capital loss carryforwards	$ 793	$ 861
Share issue costs	238	454
Exploration and evaluation assets	(3,899)	(4,025)
Convertible debentures	(652)	(725)
Property and equipment	-	(71)
Investments	(667)	(842)
Deferred income tax liability	$ (4,187)	$ (4,348)

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

15. Common shares and contributed surplus

Authorized an unlimited number of common shares without par value.

Common shares issued

	Common Shares	Share Capital
Balance, January 1, 2011	**12,298,483**	**$47,233,937**
Exchanged for units of the 2010 Fund	2,714,122	8,105,809
Warrants and broker warrants excercised	509,931	1,923,248
Stock options excercised	33,510	136,706
Shares repurchased and cancelled	(50,700)	(140,741)
Share issue costs	-	(23,808)
Balance, December 31, 2011	**15,505,346**	**$57,235,151**
Shares repurchased and cancelled	(55,250)	(108,671)
Shares issued as consideration	288,462	937,500
Balance, September 30, 2012	**15,738,558**	**$58,063,980**

Stock option plan

The directors of the Corporation have adopted, and the shareholders have approved a stock option plan (the "2008 Option Plan"), pursuant to which the directors may from time to time grant options for up to 10% of its issued and outstanding shares. The purpose of the 2008 Option Plan is to attract, retain and motivate directors, employees and consultants of the Corporation and its subsidiaries and to advance the interests of the Corporation by providing such persons with the opportunity, through stock options, to acquire an equity interest in the Corporation.

A summary of the status of the 2008 Corporation's stock option plan and changes during the year is presented below.

	September 30, 2012		December 31, 2011	
	Options	**Price**	**Options**	**Price**
Outstanding, beginning of year	811,490	2.56	630,000	2.20
Options cancelled	(16,490)	2.35	-	-
Options cancelled	(15,000)	3.60	-	-
Options exercised	-	-	(33,510)	(2.09)
Options granted	-	-	195,000	3.60
Options granted	-	-	20,000	3.01
Outstanding, end of year	**780,000**	**$ 2.16**	**811,490**	**$ 2.56**

During the fourth quarter of 2011, the board of directors of the Corporation approved the grant of 20,000 stock options pursuant to the Corporation's 2008 Option Plan. All of the options were granted to an employee of the Corporation. The options are exercisable at $3.01 per share and, if not exercised, expire October 3, 2021, subject to earlier expiration in accordance with the 2008 Option Plan and applicable policies of the TSX Venture Exchange.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

15. **Common shares and contributed surplus** (continued)

During the second quarter of 2011, the board of directors of the Corporation approved the grant of 195,000 stock options pursuant to the 2008 Option Plan. 140,000 of the options were granted to directors and executive officers with the balance granted to employees and consultants. The options are exercisable at $3.60 per share and, if not exercised, expire May 5, 2021, subject to earlier expiration in accordance with the 2008 Option Plan and applicable policies of the TSX Venture Exchange.

The value of options issued during the fourth quarter of 2011, using the Black-Scholes option-pricing model, was $53,882 which was allocated to the share-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate of between 2.25%, expected life of options 10 years, annualized volatility 98.96% and dividend rate of nil.

The value of options issued during the second quarter of 2011, using the Black-Scholes option-pricing model, was $564,248 which was allocated to the share-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate of 2.25%, expected life of options 10 years, annualized volatility 83.74% and dividend rate of nil.

Warrants

On certain issues of common shares, the Corporation has attached warrants entitling the holder to acquire additional common shares of the Corporation. A summary of the outstanding warrants is as follows:

	September 30, 2012			December 31, 2011		
	Warrants		Price	Warrants		Price
Outstanding, beginning of year	-	$	-	3,942,041	$	3.50
Warrants excersised	-	$	-	(221,340)	$	(3.50)
Warrants granted	-	$	-	288,591	$	3.50
Warrants expired	-	$	-	(4,009,292)	$	(3.50)
Outstanding, end of year	**-**	**$**	**-**	**-**	**$**	**-**

Broker warrants

On certain issuances of common shares, the Corporation granted broker warrants as partial consideration to the agents for services associated to such share issues. A summary of the outstanding broker warrants is as follow

	September 30, 2012			December 31, 2011		
	Warrants		Price	Warrants		Price
Outstanding, beginning of year	-	$	-	312,992	$	-
Broker warrants excersised	-		-	(288,591)		(2.75)
Broker warrants expired	-		-	(24,401)		(2.75)
Outstanding, end of year	**-**	**$**	**-**	**-**	**$**	**-**

The value of broker warrants issued in 2009, using the Black-Scholes option-pricing model, was $387,162 which was allocated to the share issue costs with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate 1.27%, expected life of options 2 years, annualized volatility 83% and dividend rate of nil.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

15. Common shares and contributed surplus (continued)

Contributed surplus

The fair values of certain stock options and broker warrants have been valued using the Black-Scholes option-pricing model. The fair value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital.

A summary of the contributed surplus activity is as follows:

	September 30, 2012	December 31, 2011
Balance, beginning of year	$ 3,957,910	$ 2,619,582
Stock options exercised	-	(66,710)
Broker warrants exercised	-	(354,601)
Fair value of stock options granted	-	611,095
Cancellation of stock options	-	(70,085)
Equity portion of debenture retired	-	492,500
Change in ownership of subsidiary	(1,013,691)	726,129
Balance, end of year	**$ 2,944,219**	**$ 3,957,910**

Shareholder rights plan

The directors of the Corporation have approved a shareholder rights plan ("Rights Plan"). In the event a bid to acquire control of the Corporation is made, the Rights Plan is designed to give the directors of the Corporation time to consider alternatives to allow shareholders to receive full and fair value for their shares. In the event that a bid, other than a permitted bid, is made, shareholders become entitled to exercise rights to acquire common shares of the Corporation at a significant discount to the market price.

16. Acquisitions

Follow-on Purchase of Allstar Energy Ltd.

On February 28, 2012, the Corporation announced the purchase of the remaining 10.50% of the common shares of Allstar in exchange for aggregate consideration of $1,250,000 consisting of 288,462 common shares of the Corporation at a deemed price of $3.25 per share and cash consideration of $312,500.

Upon completion of this follow-on purchase, the Corporation owns 100% of the equity of Allstar.

17. Commitments

The Corporation, through its special purpose entity Newsk, is committed to spend $1,000 in qualifying cumulative exploration expenditures by December 31, 2012. As at September 30, 2012 the balance to be spent was $1,000.

The Corporation has pledged its working interest assets with its subsidiary Allstar as collateral on Allstar's line of credit. As at September 30, 2012, Allstar was in compliance with all covenants and conditions of its line of credit agreement.

Although the Corporation has taken steps to verify title to the properties on which it is conducting exploration and development activities and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Corporation's title. Property title may be subject to Government licensing requirements or regulations, unregistered prior agreements, unregistered claims and non-compliance with regulatory and environmental requirements.

18. Capital management

The Corporation's objectives when managing capital are:
(a) to ensure that the Corporation maintains the level of capital necessary to meet the requirements of its brokers and bank;
(b) to allow the Corporation to respond to changes in economic and/or marketplace conditions by maintaining the Corporation's ability to purchase new investments;
(c) to provide sustained growth and value by increasing equity; and,
(d) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Corporation manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Corporation maintains or adjusts its capital level to enable it to meet its objectives by:
(a) realizing proceeds from the disposition of its investments;
(b) creates cash flow from its oil & gas operations
(c) utilizing leverage in the form of margin (due from brokers) and the Corporation's bank credit line (bank indebtedness);
(d) raising capital through equity financings;
(e) borrowing funds in the form of advances from related parties; and,
(f) purchasing the Corporation's own shares for cancellation pursuant to its normal course issuer bid.

The Corporation is subject to financial covenant calculations in conjunction with its operating line of credit. Specifically, the Corporation must maintain a quick ratio of not less than 10:1 reported bi-weekly, a current ratio of not less than 1.50:1 reported quarterly and maintain a tangible net worth of not less than $25,000 reported annually. The Corporation is in compliance with all covenants throughout the period. The Corporation is not subject to any capital requirements imposed by a regulator. There were no changes in the Corporation's approach to capital management during the period. The Corporation's management is responsible for the management of capital and monitors the Corporation's use of various forms of leverage on a daily basis. The Corporation expects that its current capital resources will be sufficient to discharge its liabilities as at September 30, 2012.

19. Financial instruments

The investment operations of the Corporation's business involve the purchase and sale of securities and, accordingly, a significant portion of the Corporation's assets are currently comprised of financial instruments. The use of financial instruments can expose the Corporation to several risks, including market, credit, interest rate, commodity price and liquidity risks. A discussion of the Corporation's use of financial instruments and their associated risks is provided below.

(a) Liquidity risk:

Liquidity risk is the risk that the Corporation will have insufficient cash resources to meet its financial obligations as they come due. The Corporation's liquidity and operating results may be adversely affected if the Corporation's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions, generally or related to matters specific to the Corporation, or if the value of the Corporation's investments decline, resulting in losses upon disposition.

The Corporation generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest and dividend income earned on its investments. The Corporation has sufficient marketable securities which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions.

The Corporation may use financial leverage (or "margin") when purchasing investments. Trading on margin allows the Corporation to borrow part of the purchase price of the investments (using marginable investments as collateral), rather than pay for them in full. Buying on margin allows the Corporation to increase its portfolio size by increasing the number and amount of investments through leverage. However, if the market moves against the Corporation's positions and the Corporation's investments decline in value, the Corporation may be required to provide additional funds to its brokers.

Given the nature of the Corporation's business, the Corporation may not have sufficient cash on hand to meet margin calls and may be required to liquidate investments prematurely and/or at a loss, in order to generate funds needed to satisfy the Corporation's obligations.

The Corporation has at times borrowed funds from other sources to meet its obligations, but there can be no assurances that such funds will be available in the future, or available on reasonable terms, and the absence of available funding and/or the sale of the Corporation's investments in order to meet margin calls could have a materially adverse impact on the Corporation's operating results. The Corporation manages liquidity risk by reviewing the amount of margin available, and managing its cash flow. The Corporation holds investments which can be readily converted into cash when required.

(b) Market risk:

Market risk is the risk that the fair value of, or future cash flows from, the Corporation's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, equity and commodity prices. The Corporation is exposed to market risk in trading its investments and unfavorable market conditions could result in dispositions of investments at less than favorable prices.

The Corporation manages market risk by having a portfolio which is not singularly exposed to any one issuer or class of issuers. The Corporation's investment activities are currently concentrated primarily across several sectors in the natural resource industry, including potash, oil and gas, coal, precious metals, base metals, uranium, diamonds and other commodities.

(unaudited - in thousands of Canadian dollars, except securities and per share amounts)

19. Financial instruments (continued)

(c) Interest rate risk:

Interest rate risk is the impact that changes in interest rates could have on the Corporation's earnings and liabilities. As at September 30, 2012, the Corporation had liabilities payable (collectively "interest risk liabilities"), which bear interest at rates fluctuating with the prime rate. All of the interest rate risk liabilities can be repaid by the Corporation at any time, without notice or penalty, which provides the Corporation with some ability to manage and mitigate its interest rate risk.

(d) Credit risk:

Credit risk is the risk associated with the inability of a third party to fulfill its payment obligations. The Corporation is exposed to the risk that third parties that owe it money or securities (in connection with its loans receivable, for example) will not perform their underlying obligations. At September 30, 2012 the Corporation had loans and advances receivable from companies, totaling $6,582 (2011 - $6,205) which represents approximately 8.2% (2011 – 7.4%) of the Corporation's total assets.

(e) Commodity price risk:

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand.

In the past, and from time to time, the Corporation has attempted to mitigate a portion of its commodity price risk through the use of the futures contract, as at September 30, 2012 – all futures contracts have been disposed.

(f) Fair value:

The fair value of the Corporation's financial assets and liabilities approximate their carrying values unless otherwise disclosed in the accounting policies.

The following is a summary of the inputs used as of September 30, 2012 in valuing the Corporation's investments carried at fair value:

	Level 1	Level 2	Level 3	Total
Investments, at fair value	**$ 11,482**	**$ 607**	**$ 19,421**	**$ 31,510**

For the year ended September 30, 2012, a reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

Beginning balance as at December 31, 2011	$20,776
Additional investments	1,231
Write down	(441)
Disposals	(2,145)
Balance at September 30, 2012	**$19,421**

20. Subsequent event

On November 9, 2012, the corporation along with its wholly owned subsidiary Allstar and other joint venture partners disposed of oil lands, wells and equipment and gas processing facility in the Kindersley Viking area for $24,100 cash proceeds, after closing adjustments. The proceeds were allocated amongst all joint venture partners in accordance with their working interests.

21. Segmented information (reported in thousands of Canadian dollars)

The Corporation is a resource investment, financial, managerial and geological advisory, and merchant banking Corporation which, as its principal business, invests in a diversified portfolio of shares and other securities of resource issuers including, without limitation, resource issuers engaged in mineral or oil and gas exploration and development, with a view to achieving capital appreciation of the portfolio. As at September 30, 2012, the Corporation has four reportable segments: merchant banking and resource investment, brokerage, extractive and geological advisory.

	Resource Investment	Geological Advisory	Brokerage	Extractive Industries	Total
Total assets	**$ 40,888**	**$ 3,592**	**$ 168**	**$ 36,028**	**$ 80,676**
Revenues					
Geological and other consulting	-	7,655	295	-	7,950
Realized gains	(1,621)	-	-	(212)	(1,833)
Oil and gas sales		-	-	5,542	5,542
Unrealized losses	(2,598)	-	(1)	-	(2,599)
Royalty income	-	-	-	74	74
Interest, rent and dividend income	102	229	-	171	502
	(4,117)	**7,884**	**294**	**5,575**	**9,636**
Expenses					
Amortization and depletion	24	64	-	1,917	2,005
Business and investor relations	360	72	-	90	522
Finance	1,745	4	-	876	2,625
Management fees	731	-	-	194	925
General and administration	195	424	219	683	1,521
Oil and gas operations	-	-	-	2,379	2,379
Professional fees	396	85	-	122	603
Project costs	-	4,709	37	553	5,299
Transaction costs	700	-	-	-	700
Wages and benefits	448	1,855	-	-	2,303
	4,599	**7,213**	**256**	**6,814**	**18,882**
Income before income taxes	**(8,716)**	**671**	**38**	**(1,239)**	**(9,246)**
Current income tax	-	136	-	-	136
Deferred income tax	(692)	-	-	375	(317)
Net loss	**(8,024)**	**535**	**38**	**(1,614)**	**(9,065)**