Consolidated Interim Income Statement For the three and nine months ended September 30 (in Canadian dollars) (unaudited)

		Three Months Ended		Nine Mon	ths Ended
	Note	2012	2011	2012	2011
		\$	\$	\$	\$
REVENUE					
Crude oil and natural gas revenue, net	5	573,501	123,703	1,321,236	388,769
Royalty income	5	451	4,866	6,755	16,326
		573,952	128,569	1,327,991	405,095
EXPENSES					
Production and operating expenses		180,926	145,009	495,261	454,617
General and administrative expenses	6	1,529,220	849,287	4,271,322	3,594,750
Depletion and depreciation	8	430,905	164,717	800,836	335,878
Impairment losses	8, 9	6,619,394	-	6,619,394	8,977,803
		8,760,445	1,159,013	12,816,813	13,363,048
Loss before the following		(8,186,493)	(1,030,444)	(10,858,822)	(12,957,953)
Finance income	7	5,569	4,284	45,274	31,600
Finance expenses	7	(7,695)	(186,993)	(527,181)	(275,475)
Net gain on dispositions and creditor settlement	8, 9, 11	1,626,137	308,214	13,063,174	308,214
Income (loss) before income tax expense		(6,562,482)	(904,939)	1,722,445)	(12,893,614)
Current income tax expense (recovery)		-	-	650,275	(17,726)
Income (loss) for the period after tax		(6,562,482)	(904,939)	1,072,170	(12,875,888)
Income (loss) per Share					
Weighted average shares outstanding	16	166,586,296	142,857,590	166,586,296	120,182,383
Net income (loss) per share – basic and diluted	16	(0.04)	(0.01)	0.01	(0.11)

The accompanying notes form part of these interim financial statements.

Consolidated Interim Statement of Comprehensive Income (Loss) For the three and nine months ended September 30 (in Canadian dollars) (unaudited)

	Three Months Ended		Nine Months Ended	
	2012	2012 2011		2011
	\$	\$	\$	\$
Income (loss) for the period	(6,562,482)	(904,939)	1,072,170	(12,875,888)
Other comprehensive loss, net of tax:				
Exchange difference on conversion of parent entity	(155,494)	(200,709)	(158,287)	(21,607)
Total comprehensive income (loss) for the period	(6,717,976)	(1,105,648)	913,883	(12,897,495)

The accompanying notes form part of these interim financial statements.

Consolidated Interim Statement of Financial Position As at September 30, 2012 (in Canadian dollars) (unaudited)

	Note	September 30, 2012	December 31, 2011
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,198,407	1,551,951
Trade and other receivables	10	465,701	802,083
Prepayments and deposits		166,399	117,388
Assets held for sale	9	-	208,803
Total current assets		1,830,507	2,680,225
NON-CURRENT ASSETS			
Property, plant and equipment	8	4,559,878	7,972,645
Exploration and evaluation assets	9	13,664,712	13,779,219
Total non-current assets		18,224,590	21,751,864
TOTAL ASSETS		20,055,097	24,432,089
LIABILITIES			
CURRENT LIABILITIES			
Loans and borrowings	12	-	3,840,000
Trade and other payables	11	1,413,773	2,590,666
Total current liabilities		1,413,773	6,430,666
NON-CURRENT LIABILITIES			
Deferred income tax		-	
Decommissioning liability	13	1,860,508	2,521,111
Total non-current liabilities		1,860,508	2,521,111
TOTAL LIABILITIES		3,274,281	8,951,777
NET ASSETS		16,780,816	15,480,312
EQUITY			
Issued capital	16	36,020,346	36,020,346
Reserves		13,192,885	12,964,551
Accumulated losses		(32,432,415)	(33,504,585)
TOTAL EQUITY		16,780,816	15,480,312
Basis of presentation – going concern	2(b)		
Commitments	14		
Subsequent events	8		

The accompanying notes form part of these interim financial statements.

Consolidated Interim Statement of Changes in Equity For the nine months ended September 30 (in Canadian dollars) (unaudited)

		Foreign Currency	Option	Accumulated	
	Issued Capital	Reserve	Reserve	Losses	Total
	\$	\$	\$	\$	\$
Balance at January 1, 2012	36,020,346	1,462,248	11,502,303	(33,504,585)	15,480,312
Income for the period	-	-	-	1,072,170	1,072,170
Subtotal	36,020,346	1,462,248	11,502,303	(32,432,415)	16,552,482
Exchange difference on conversion of parent entity	-	(158,287)	-	-	(158,287)
Share-based compensation			386,621		386,621
Balance at September 30, 2012	36,020,346	1,303,961	11,888,924	(32,432,415)	16,780,816
		Foreign			
		Currency	Option	Accumulated	
	Issued Capital	Reserve	Reserve	Losses	Total
	\$	\$	\$	\$	\$
Balance at January 1, 2011	26,476,945	1,343,731	10,266,209	(18,948,184)	19,138,701
Loss for the period	-	-	-	(12,875,888)	(12,875,888)
Subtotal	26,476,945	1,343,731	10,266,209	(31,824,072)	6,262,813
Exchange difference on conversion of parent entity	-	(21,607)	-	-	(21,607)
Share issuance	10,476,354	-	-	-	10,476,354
Share issuance costs	(826,206)	-	-	-	(826,206)
Share-based compensation	-	-	158,317	-	158,317
Balance at September 30, 2011	36,127,093	1,322,124	10,424,526	(31,824,072)	16,049,671

The accompanying notes form part of these interim financial statements.

Consolidated Interim Statement of Cash Flows For the three and nine months ended September 30 (in Canadian dollars) (unaudited)

		Three Months Ended		Nine Mon	ths Ended
	Note	2012	2011	2012	2011
		\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Income (loss) for the period after tax		(6,562,482)	(904,939)	1,072,170	(12,875,888)
Items not affecting cash flows:					
Share-based payments		214,024	-	392,606	108,957
Depletion and depreciation	8	430,905	164,717	800,836	335,878
Impairment losses		6,619,394	-	6,619,394	8,977,803
Net gain on dispositions	8, 9	(1,626,137)	-	(13,003,666)	-
Income tax recovery		-	-	-	(17,726)
Accretion of decommissioning liability	13	7,696	17,365	48,897	36,551
Funds used in operations		(916,600)	(722,857)	(4,069,763)	(3,434,425)
Changes in non-cash working capital	18	(736,813)	(843,373)	(116,843)	(671,407)
Cash used in operating activities		(1,653,413)	(1,566,230)	(4,186,606)	(4,105,832)
CASH FLOWS FROM FINANCING ACTIVITIES Proceeds from issue of ordinary shares		-	3,694,323	-	10,476,354
Costs associated with issue of shares		_	(215,557)	_	(826,206)
Proceeds from loans and borrowings		_	60,000	_	70,000
Repayment of loans and borrowings	12	_	-	(3,840,000)	(30,000)
Cash provided by (used in) financing activities		-	3,538,766	(3,840,000)	9,690,148
CASH FLOWS FROM INVESTING ACTIVITIES Property, plant and equipment expenditures	8	(2,377,672)	(630,028)	(5,126,262)	(1 525 677)
Exploration and evaluation expenditures	9	(95,446)	(132,558)	(168,550)	(1,535,677) (2,559,526)
Proceeds from dispositions	8, 9	1,751,329	(132,336)	13,761,329	(2,559,520)
Changes in non-cash working capital	18	(913,532)	(2,804,977)	(772,678)	(1,149,823)
Cash provided by (used in) investing activities	10	(1,635,321)	(3,567,563)	7,693,839	
Net change in cash position		(3,288,734)			(5,245,026)
Cash and cash equivalents at beginning of period		4,493,011	(1,595,027) 2,766,855	(332,767) 1,551,951	339,290 668,938
Effects of exchange rate fluctuations on cash held		(5,870)	(78,970)	(20,777)	84,630
Cash and cash equivalents at end of period		1,198,407	1,092,858	1,198,407	1,092,858
Cash and Cash equivalents at end of period		1,130,407	1,082,000	1,130,407	1,082,000

The accompanying notes form part of these financial statements.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

1. REPORTING ENTITY

Mako Hydrocarbons Ltd. ("Mako" or the "Company"), formerly Mako Energy Limited, is a junior oil and gas exploration and development company operating in western Canada. The Company received shareholder approval on July 2, 2010 to change its business from an industrial company to an oil and natural gas explorer and producer. The consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2012 comprise the Company and its wholly owned subsidiary MKE Canada Ltd. (together referred to as the "Group" or "Consolidated Entity").

Mako's registered office is located at 14 Emerald Terrace, West Perth, WA 6005. The principal place of business is located at 800, 521 – 3rd Avenue SW, Calgary, Alberta, Canada T2P 3T3.

The ordinary shares of Mako trade on the Australian Securities Exchange ("ASX") under the symbol "MKE". The consolidated financial reports of the Company for the year ended June 30, 2011 and audited half year report for the period ended December 31, 2011 are available on the Company's website at www.makohydrocarbons.com.

2. BASIS OF PRESENTATION

(a) Statement of compliance:

These condensed interim consolidated financial statements for the three and nine months ended September 30, 2012 are unaudited and have been prepared in accordance with Australian Accounting Standard AASB 134 "Interim Financial Reporting". Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRS").

This consolidated interim financial report is intended to provide users with an update on the latest annual financial statements of the Company. As such, this consolidated interim financial report does not include full disclosures of the type normally included in annual financial statements. It is therefore recommended that this consolidated interim financial report be read in conjunction with the half year consolidated financial statements ended December 31, 2011 and annual consolidated financial statements of the Company for the year ended June 30, 2011, together with any public announcements made by Mako during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 30, 2012.

(b) Basis of presentation:

The Company previously announced the change in its fiscal year-end to December 31, which took effect on January 1, 2012. This change has been made in accordance with section 323D (2A) of the Corporations Act 2001. The directors of the Company believe it is in the best interests of the Company to have Mako match its financial year with other public Canadian junior oil and gas companies.

Concurrently, Mako has adopted the Canadian dollar as its reporting currency. Accordingly, all dollar amounts in this report have been shown in Canadian dollars unless otherwise noted. Refer to note 2(d).

Effective January 1, 2012 the Company has adopted the indirect method of presentation for the statement of cash flows. This presentation method is the standard for other public Canadian junior oil and gas companies.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

(c) Going Concern

The Group's consolidated interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Group has a working capital surplus of \$416,734 as at September 30, 2012 and has realized production from 3 new wells in the Provost, Alberta field since the beginning of 2012. The Company has experienced negative cash flow from operating activities in 2012 and is currently in a negative working capital position.

The Company's ability to continue as a going concern is dependent on growing production and cash flow, and obtaining adequate additional capital from the sale of assets, the issuance of share equity or sourcing of debt on favorable terms. The Company continues to seek opportunities for additional funding, through the issue of new equity, and the Directors anticipate success in raising capital over the next 12 months. Should the Company be unsuccessful in raising equity or financing, there is material uncertainty which may cast significant doubt as to whether the Company will continue as a going concern. The financial statements do not reflect adjustments that would be necessary to the presentation and carrying amounts of assets and liabilities should the Company be unable to continue as a going concern, and these adjustments might be material.

(d) Basis of measurement:

The consolidated interim financial statements have been prepared on the historical cost basis except for share-based payments and held for trading financial assets, which are measured at fair value, and for which the changes in fair value are recorded in earnings. Historical cost is generally based on the fair value of the consideration given in exchange for assets recorded on the date of the transaction

The methods used to measure fair values are discussed in note 4.

(e) Change in presentation currency:

Effective January 1, 2012 the Company adopted the Canadian dollar (CAD) as its presentation currency, which is the functional currency of the Canadian subsidiary and all of the Group's oil and gas operations. The parent functional currency will remain Australian dollars. This is a change in accounting policy as until December 31, 2011, the presentation currency of the Company was Australian dollars.

In order to derive CAD comparatives the Group has converted the comparative period of the financial statements as follows:

- Statement of Financial Position period end rate
- Statement of Income and Comprehensive Income average rate for the period
- Statement of Changes in Equity rate in effect on transaction date

The same translation rate methodology has been applied to the current period.

(f) Use of estimates and judgments:

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any affected future years.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 8 valuation of property, plant and equipment
- Note 9 valuation of exploration and evaluation assets
- Note 13 decommissioning liability
- Note 16 measurement of share-based payments
- Note 17 valuation of financial instruments

Crude oil and natural gas reserve estimates impact a number of the areas referred to above, including in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

- (a) Basis of consolidation:
 - (i) Subsidiaries:

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under Australian Accounting Standards AASB 3 "Business Combinations". The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized immediately in income.

(ii) Jointly controlled operations and jointly controlled assets:

Many of the Group's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Group's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency translation:

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

Transactions in currencies different from the presentation currency are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in income.

The assets and liabilities of the Company, where the functional currency is not the Canadian dollar, are translated into Canadian dollars using the period end exchange rates. The consolidated statements of income and cash flows are translated into Canadian dollars using average exchange rates during the respective periods. Exchange differences arising are reflected in foreign currency reserve in equity. Such translation differences are recognized in the consolidated statement of comprehensive income (loss) in the period. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated accordingly.

(c) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition all non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. The carrying value of these non-derivative financial instruments approximates their fair value.

Trade and other receivables:

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identifiable. An impairment provision is recognized when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Trade and other payables:

Trade and other payables are carried at amortized cost and due to their short–term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

(d) Property, plant and equipment assets:

(i) Recognition and measurement.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGUs") for impairment testing. When significant parts of plant and equipment have different useful

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

lives, than related oil and gas property interests, they are accounted for as separate major components.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined as the difference between proceeds from disposal and the carrying amount of property, plant and equipment, net of its related decommissioning liability, which is then recognized net of transaction costs within "other income" or "other expenses" in the income statement.

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in income as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and establishing or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in income as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. The future development cost estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated by independent reserve engineers and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs, which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable. The equivalent statistical probability for the proven component of proven and probable reserves is 90 percent.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proven and probable if productibility is supported by either actual production or a conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions of mineral rights not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the enhanced recovery project or program was based.

The estimated useful lives for certain plant and equipment assets for the current and comparative periods are as follows:

Oil battery	12 years
Turnaround costs	1 to 3 years

For other corporate assets, depreciation is recognized in income on a declining basis over the estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for other assets for the current and comparative periods are as follows:

Office equipment and fixtures	20%
Computer hardware and software	45%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(e) Exploration and evaluation assets

Exploration and evaluation assets ("E&E") are accumulated in respect of each identifiable CGU. These costs are only carried forward to the extent that they are expected to be recovered through the successful development or sale of the area, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of proven and probable oil and gas reserves.

A review in accordance with note 3(g) is undertaken of each CGU to determine the appropriateness of continuing to recognize carrying values in relation to that CGU.

All E&E assets continue to be capitalised until a "trigger event" occurs that will invoke impairment testing. A trigger event could arise from a significant change in the forward looking assessment of geo-technical and/or commercial factors. This could involve a series of dry holes, the relinquishment of mineral rights in an area, or significant decline in commodity prices. Once impairment testing is required, Mako will complete a full assessment of the recoverable value of the area of interest as compared to the carrying value of the area of interest. This may result in an impairment of its carrying value.

Accumulated costs in relation to an abandoned area are written off in full in the income statement in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are transferred from E&E assets to property, plant and equipment and amortised over the life of the area according to the rate of depletion of the proven and probable oil and gas reserves.

(f) Leased assets:

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars)

(unaudited)

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as capital leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to its asset classification.

Minimum lease payments made under capital leases are apportioned between finance expense and the reduction of the outstanding liability. Finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are recognized as operating leases, which are not recognized on the Group's statement of financial position. Payments made under operating leases are recognized in income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Impairment:

(i) Financial instruments:

Financial assets are assessed at each reporting date to determine whether there is any objective evidence to indicate impairment. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in income.

An impairment loss is reversed if the reversal can be related objectively to a recovery event occurring after the impairment loss was recognized. For financial instruments, the impairment reversal is recognized in income.

(ii) Non-financial assets:

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

cost to sell of oil and natural gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering event as well as upon their eventual reclassification to development and producing oil and natural gas interests in property, plant and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in income. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill associated with the CGUs and then to reduce the carrying amounts of the other assets in the CGU or group of CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(h) Share-based payments:

Share purchase options are granted to directors, employees and consultants on a discretionary basis. Share-based payments to directors and employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount corresponding to the general and administrative expense recorded in the income statement is recorded to the option reserve. The fair value of options is determined using the Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. When exercised, the value of options is reclassified from reserve to issued share capital.

(i) Decommissioning liability:

The Group's oil and gas exploration and development activities give rise to dismantling, decommissioning and site remediation activities. Provision is made for the estimated cost of site restoration, which is capitalized in the relevant asset category.

The decommissioning liability is measured as the present value of management's best estimate of expenditure required to settle the present obligation at the reporting date. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money and the risks specific to the liability. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the liability account to the extent the obligation was established.

(j) Revenue:

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline or is delivered to a sales point terminal. Revenue is measured net of discounts, customs duties and royalties. With respect to the latter, the Group is acting as a collection agent on behalf of others.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements. Interest revenue is recognised using the effective interest rate method.

(k) Finance income and expenses:

Interest income is recognized as it accrues in finance income, using the effective interest method.

Finance expense comprises interest expense on borrowings and accretion of the discount on decommissioning liability and impairment losses recognized on financial assets.

(I) Income tax:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in income except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, where provision is made for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but it is expected to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Earnings per share:

Basic earnings per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing the income or loss attributable to common shareholders and the weighted average number of common shares outstanding after giving effect to dilutive instruments such as options granted to employees.

(n) Comparatives:

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars)

(unaudited)

financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed. Refer to note 2(d).

(o) Business Combinations:

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognized (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is re-measured each reporting period to fair value, recognizing any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

(p) Other Liability Provisions:

Other liability provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. These liabilities are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(q) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, deposits available on demand with banks, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

(r) Goods and Services Tax ("GST"):

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable or payable is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a net recoverable GST basis. The GST components of cash flows arising from investing or financing activities which are recoverable or payable are presented as operating cash flows included in receipts from customers or payments to suppliers.

(s) Employee benefits:

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within 1 year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than 1 year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy vesting requirements. Those cash flows are

Notes to the Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2012

(in Canadian dollars)

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discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(t) Interest-bearing loans and borrowings:

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(u) Non-current assets and liabilities classified as held for sale and discontinued operations:

When the Group intends to sell a non-current asset or a group of assets (a disposal group), and if the sale within 12 months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position.

Liabilities are classified as 'held for sale' and presented as such in the statement of financial position if they are directly associated with a disposal group. Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Assets classified as 'held for sale' are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. However, some 'held for sale' assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's accounting policy for those assets. No assets classified as 'held for sale' are subject to depreciation or amortisation subsequent to their classification as 'held for sale'.

(v) New or revised Accounting Standards and Interpretations that are first effective in the current reporting period:

There are no new or revised standards for application in the current period. The accounting policies adopted are consistent with those of the previous financial year.

(w) New Accounting Standards for Application in Future Period:

Make has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

As of January 1, 2015, the Group will be required to adopt IFRS 9 "Financial Instruments", which is the result of the first phase of the International Accounting Standards Board ("IASB") project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on Mako's Consolidated Financial Statements will not be known until the project is complete.

In May 2011, the IASB released the following new standards: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosures of interests in other entities" and IFRS 13, "Fair Value Measurement". Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below:

• IFRS 10, "Consolidated Financial Statements" supercedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

- IFRS 11, "Joint Arrangements" divides joint arrangements into two types, joint operations and joint
 ventures, each with their own accounting model. All joint arrangements are required to be
 reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.
- IFRS 12, "Disclosure of Interests in Other Entities" combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.
- IFRS 13, "Fair Value Measurement" defines fair value, establishes a framework for measuring fair
 value and sets out disclosure requirements for fair value measurements. This standard defines fair
 value as the price that would be received to sell an asset or paid to transfer a liability in an orderly
 transaction between market participants at the measurement date.

The Company is currently analyzing the expected impact, if any, that the adoption of each of these standards will have on its Consolidated Financial Statements.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment and E&E assets:

The fair value of property, plant and equipment recognized in a business combination, is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports or independent land evaluation reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions, being 15% for the three and nine months ended September 30, 2012 (15% for the half year ended December 31, 2011 and the year ended June 30, 2011).

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(ii) Other intangible assets:

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Cash and cash equivalents, trade and other receivables, and trade and other payables:

The fair value of cash and cash equivalents, trade and other receivables, and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At September 30, 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

(iv) Loans and borrowings:

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

The Company's bank loan facilities bear interest at a floating market rate and accordingly their fair market value approximates their carrying values.

(v) Share options:

The fair value of employee share options is measured using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected share price volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

5. OIL AND NATURAL GAS REVENUE

		Three Months Ended September 30		Nine Months Ended September 30	
	2012	2012 2011		2011	
	\$	\$	\$	\$	
Crude oil and natural gas revenue	636,407	131,511	1,473,065	420,878	
Royalty income	451	4,866	6,755	16,326	
Less: royalties	(62,906)	(7,808)	(151,829)	(32,109)	
	573,952	128,569	1,327,991	405,095	

6. GENERAL AND ADMINISTRATIVE

		Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011	
	\$	\$	\$	\$	
Staff expenses	685,813	234,295	2,385,282	1,825,981	
Office and other expenses	183,159	189,158	460,131	508,378	
Investor relations	266,270	171,171	572,601	348,661	
Professional fees	168,090	173,784	470,861	643,754	
Board of director expenses	49,299	89,423	148,085	222,276	
Share-based compensation	214,024	-	392,606	108,957	
Capitalized G&A	(37,435)	(8,544)	(158,244)	(63,257)	
	1,529,220	849,287	4,271,322	3,594,750	

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

7. FINANCE INCOME AND EXPENSES

		Three Months Ended September 30		Nine Months Ended September 30	
	2012	2012 2011		2011	
	\$	\$	\$	\$	
Finance income:					
Interest income on cash balances	5,569	4,284	45,274	31,600	
Finance expenses:					
Interest on loans and borrowings	-	(169,628)	(478,284)	(238,925)	
Accretion of decommissioning liability	(7,695)	(17,365)	(48,897)	(36,550)	
	(7,695)	(186,993)	(527,181)	(275,475)	

8. PROPERTY, PLANT AND EQUIPMENT

	September 30,	December 31,
	2012	2011
	\$	\$
Oil and gas properties		
At cost	9,060,733	8,108,127
Accumulated depreciation	(809,679)	(427,173)
Accumulated impairment losses	(7,592,819)	(1,100,496)
Total oil and gas properties	658,235	6,580,458
Oil and gas equipment		
At cost	4,038,634	1,363,079
Accumulated depreciation	(234,869)	(51,626)
Total oil and gas equipment	3,803,765	1,311,453
Office equipment		
At cost	185,619	137,794
Accumulated depreciation	(87,741)	(57,060)
Total office equipment	97,878	80,734
Total property, plant and equipment	4,559,878	7,972,645

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

Movement in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the reporting period.

	Oil and gas properties	Oil and gas equipment	Office equipment	Total
	\$	\$	\$	\$
Balance, December 31, 2010	4,052,157	1,000,540	88,372	5,141,069
Disposal recoveries	1,020,138	-	-	1,020,138
Additions	3,714,519	358,934	39,012	4,112,465
Impairment of oil and gas properties	(1,714,925)	-	-	(1,714,925)
Depletion and depreciation	(491,431)	(48,021)	(46,650)	(586,102)
Balance, December 31, 2011	6,580,458	1,311,453	80,734	7,972,645
Disposal	(443,898)	-	-	(443,898)
Additions	1,727,981	2,675,555	47,825	4,451,361
Impairment of oil and gas properties	(6,619,394)	-	-	(6,619,394)
Depletion and depreciation	(586,912)	(183,243)	(30,681)	(800,836)
Balance, September 30, 2012	658,235	3,803,765	97,878	4,559,878

The Company closed a minor property disposition at Highvale, Alberta on June 22, 2012 for cash proceeds of \$10,000. The Company recorded a loss on the sale of \$397,249 which includes a reduction of related decommissioning liabilities by \$902,626.

Property, plant and equipment is assessed at each reporting date and compared to the carrying amounts to determine if any indicator of impairment exists. Impairments are recognized when an asset's or group of asset's carrying value exceeds their recoverable amounts. Impairments can be reversed in the future if circumstances change. Impairment testing is required when there are indicators of impairment such as a significant drop in commodity prices or a downward revision of proved and probable oil and gas reserves. The Company's has seen a downward revision of its proved and probable oil and gas reserves at September 30, 2012 as a result of increased future development costs related to the future reserves. Value in use was determined using the net present value of cash flows from proven and probable oil and gas reserves in the respective CGU with a discount rate of 15%. During the three and nine months ended September 30, 2012 the Company recorded impairment of \$6,619,394 related to its Provost, Alberta property and other minor properties. During the three and nine months ended September 30, 2011 impairment expense of \$1,554,703 was recorded related to property, plant and equipment and \$7,423,100 was recorded related to impairment of exploration and evaluation assets. The Company conducted a strategic review of the Provost project and has subsequently determined to offer the asset for sale with the intention of redeploying capital scheduled for Provost as well as the sale proceeds to its core operations.

9. EXPLORATION AND EVALUATION ASSETS

E&E assets consist of the Group's undeveloped land holdings and seismic data purchases in Alberta and Saskatchewan. The change in E&E assets is reflective of the disposition of assets held for sale at December 31, 2011 related to specific oil and gas rights in the Duvernay formation, and an asset sale of an additional 1,600 net acres of Duvernay mineral rights in Rimbey, Alberta, offset by additions made at crown land sales

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars)

(unaudited)

during the period. The first quarter 2012 closing of the disposition of assets held for sale at December 31, 2011 resulted in a gain of \$11,691,235. The asset sale in Rimbey Alberta during the current quarter resulted in a gain of \$1,709,679. The gains have been recorded to income in the respective period ended September 30, 2012. The cash proceeds from these dispositions amounted to \$12,000,000 and \$1,751,329 respectively. There was no impairment of E&E assets in the three and nine month periods ended September 30, 2012.

The Group commenced the drilling of its first test well under the terms of a farm-in agreement at Kaybob in December 2010. The Group determined that the test well was not capable of production and proceeded to abandon the well. Under the terms of the farm-in agreement, the Company could elect to drill a second test well provided the election is made within 90 days of the rig release date from the first test well. The Group decided not to make this election and, accordingly, recorded an impairment of E&E assets of \$2,063,903 in the three and nine month periods ended September 30, 2011 related to the Kaybob project. Due to poorer than expected performance from drilling and production operations at the Company's Provost property, an impairment loss of \$5,359,197 was recorded against acquisition costs originally allocated to E&E assets.

	\$
Balance, December 31, 2010	19,382,209
Additions	2,312,007
Impairment of exploration and evaluation expenditures	(7,706,194)
Assets held for sale	(208,803)
Balance, December 31, 2011	13,779,219
	\$
Balance, January 1, 2012	13,779,219
Additions	26,049
Disposals	(140,556)
Balance, September 30, 2012	13,664,712

10. TRADE AND OTHER RECEIVABLES

	September 30,	December 31,	
	2012	2011	
	\$	\$	
Current			
Amounts receivable from joint venture parties	89,042	474,015	
Other receivables	376,659	328,068	
	465,701	802,083	

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

11. TRADE AND OTHER PAYABLES

	September 30,	December 31,
	2012	2011
	\$	\$
Current unsecured liabilities:		
Trade payables	670,279	1,381,776
Amounts payable from joint venture operations	119,794	320,720
Other payables	623,700	888,170
	1,413,773	2,590,666

During the year ended December 31, 2011, a subsidiary of the Company issued a proposal to its creditors for settlement of all outstanding trade debts at a discounted amount of the outstanding principal balances owed. The proposal had an acceptance rate of 99% and a gain of \$308,214 related to the settlement was recorded to the income statement for the three and nine months ended September 30, 2011. The remaining outstanding proposal was accepted and settled during the nine month period ended September 30, 2012, which resulted in a gain of \$59,509 being recorded to the income statement.

12. LOANS AND BORROWINGS

	\$
Balance, December 31, 2010	1,340,000
Payment of operating bank loan	(1,000,000)
Proceeds from 12.75% subordinated credit facility	3,500,000
Balance, December 31, 2011	3,840,000
Payment of operating bank loan	(340,000)
Payment of 12.75% subordinated credit facility	(3,500,000)
Balance, September 30, 2012	-

During the reporting period the operating Canadian subsidiary of the Company decreased its revolving demand bank loan facility, which bears interest at the bank's prime lending rate plus 1.35 percent, from \$2,500,000 to \$1,900,000. The reduction in the bank credit facility is directly correlated to the value of the borrowing base related to the Highvale property disposed of in June 2012. The facility is subject to an annual review by the Lender. The next review date is scheduled for May 31, 2013. The Company is required to maintain its working capital ratio at 1:1 or greater while the facility is outstanding. The working capital ratio is defined as current assets plus the unutilized portion of the credit facility divided by current liabilities less the balance drawn against the credit facility. The Company is in compliance with this covenant as at September 30, 2012. At September 30, 2012 the Company has issued a letter of guarantee in the amount of \$25,875, which is held as security by the Saskatchewan Minister of Energy and Resources against future, contingent well abandonment liabilities. The letter of guarantee facility previously held by the Alberta Energy Resources Conservation Board was refunded. The bank credit facility is secured by a fixed and floating charge over all of the assets of the Canadian subsidiary.

On 29 March 2012, the Company repaid the \$3.5 million outstanding balance of its 12.75% subordinated credit facility. The facility is no longer available for use.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

13. DECOMMISSIONING LIABILITY

As at September 30, 2012, the Group has estimated the net present value of future costs related to the provision for abandonment and restoration of its oil and gas properties to be \$1,860,508 based on an undiscounted future liability of \$2,138,828. These obligations are to be settled over an average of 5.7 years and have been discounted using risk free interest rates ranging from 1.0% to 2.4% and an annual inflation rate of 2.0%. The economic life and the timing of the decommissioning liability is dependent on government legislation, commodity prices and the future production profiles of its oil and gas properties. In addition, the estimated cash outflows are subject to inflationary and/or deflationary pressures in the cost of third party service provision.

Changes to the provision for decommissioning liability were as follows:

	September 30, 2012 \$	December 31, 2011 \$
Opening balance	2,521,111	1,085,238
Liabilities incurred/acquired during the period	144,956	166,877
Liabilities settled/disposed during the period	(902,626)	(547,317)
Change in estimates	48,170	1,762,397
Accretion of decommissioning liability	48,897	53,916
Closing balance	1,860,508	2,521,111

14. COMMITMENTS

a. Operating Lease Commitments

The Group is committed to payments under operating leases for office space until May 31, 2015.

September 30,	December 31,
2012	2011
\$	\$
77,956	336,125
762,939	773,468
-	-
840,895	1,109,593
September 30,	December 31,
2012	2011
\$	\$
13,443	244,643
400,715	447,443
, <u>-</u>	-
414,158	692,086
	2012 \$ 77,956 762,939 - 840,895 September 30, 2012 \$ 13,443 400,715 -

Capital expenditure commitments represent field mineral and surface lease rental payments and a surface reclamation obligation required to maintain land holdings.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

15. OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. The Group is engaged in oil and natural gas exploration and production in Canada. The operations are located in Canada with the head office being in Australia. The reportable segments are based on where operations are conducted. As the Company's main operations relate to oil and gas operations performed in Canada, all direct revenue, operating, general and administrative expense and capital expenditures necessary to conduct these operations are shown in that operating segment.

Nine months ended September 30, 2012	Australia	Canada	Total
	\$	\$	\$
Segment revenue:			
Crude oil and natural gas revenue	-	1,321,236	1,321,236
Royalty income	-	6,755	6,755
	-	1,327,991	1,327,991
Segment results:			
Gross segment result before depletion, depreciation, impairment and gain on acquisition of subsidiary	(817,520)	(2,621,072)	(3,438,592)
Depletion, depreciation and amortization	(1,696)	(799,140)	(800,836)
Impairment of oil and gas properties	-	(6,619,394)	(6,619,394)
	(819,216)	(10,039,606)	(10,858,822)
Finance income	2,170	43,104	45,274
Finance expense	-	(527,181)	(527,181)
Net gain on dispositions and creditor settlement	-	13,063,174	13,063,174
Income (loss) before income taxes	(817,046)	2,539,491	1,722,445
Current income tax expense	-	(650,275)	(650,275)
Income (loss) for the period	(817,046)	1,889,216	1,072,170

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

	Australia	Canada	Total
	\$	\$	\$
	-	388,769	388,769
	-	16,326	16,326
	-	405,095	405,095
,	(1,413,891)	(2,230,381)	(3,644,272)
	(1,098)	(334,780)	(335,878)
	-	(8,977,803)	(8,977,803)
1	(1,414,989)	(11,542,964)	(12,957,953)
	31,590	10	31,600
	-	(275,475)	(275,475)
	-	308,214	308,214
	(1,383,399)	(11,510,215)	(12,893,614)
	-	17,726	17,726
	(1,383,399)	(11,492,489)	(12,875,888)
Australia		Canada	Total
\$		\$	\$
62,285	1:	9,992,812	20,055,097
62,285	1	9,992,812	20,055,097
Australia		Canada	Total
\$		\$	\$
91,172	2	4,340,917	24,432,089
91,172	2	4,340,917	24,432,089
	Australia \$ 62,285 62,285 Australia \$ 91,172	\$	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$

16. ISSUED CAPITAL

The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

There were no share capital transactions in the nine month period ended September 30, 2012.

(a) Share capital - ordinary shares, fully paid

September 30, 20	12	December 31, 2	2011
Number of shares	\$	Number of shares	\$
166,586,296	36,020,346	166,586,296	36,020,346

(b) Options

	Number of options
Balance, December 31, 2010	80,250,000
Options issued to employees	2,200,000
Options issued to consultants	8,332,264
Balance, December 31, 2011	90,782,264
Compensation options	926,816
Options expired during the period	(520,500)
Options issued to directors	12,000,000
Options issued to employees and consultants	8,150,000
Balance, September 30, 2012	111,338,580

Shares issued to Canadian shareholders of companies acquired by Mako in 2010 included provisions that would provide these shareholders with compensation should Mako undertake any rights issue in which they were unable to participate. Such was the case in August 2011, when existing shareholders were given the right to acquire 1 new share for every 3.5 shares held at Aus\$0.10 each. This offering was only available to Australian and New Zealand shareholders of the Company under the terms of the Corporations Act 2001. Therefore, the Company was obliged to compensate the exchangeable shareholders on a basis that the Board considered to be appropriate and equitable. The Board considered the value of the 'lost opportunity' to these shareholders and elected to issue to these shareholders 926,816 options to acquire ordinary shares in the Company exercisable at the same pricing of the rights issue and expiring on January 12, 2015. The issue was made on January 13, 2012.

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The fair values at grant date of the options were calculated using the Black-Scholes model. The following table lists the inputs to the model used for grants issued during the nine month period ended September 30 2012:

No of Options	3,000,000	350,000	600,000	9,000,000	5,200,000	2,000,000	926,816
Grant date	28/08/2012	09/07/2012	04/07/2012	20/04/2012	23/04/2012	02/05/2012	13/01/2012
Share price	\$0.06	\$0.06	\$0.06	\$0.08	\$0.08	\$0.08	\$0.10
Exercise price	\$0.06 - \$0.15	\$0.06	\$0.06	\$0.15	\$0.08	\$0.08	\$0.10
Interest rate	3.50%	3.50%	3.50%	4.25%	4.25%	3.75%	-
Expiry date	28/08/2017	09/07/2017	04/07/2017	15/11/2016	23/04/2017	02/05/2017	12/01/2015
Volatility	100%	100%	100%	100%	100%	100%	-
Fair value at grant date	\$0.04 - \$0.05	\$0.05	\$0.05	\$0.05	\$0.06	\$0.06	-

(c) Diluted Per Share Amounts

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period the options were outstanding. Excluded from diluted per share amounts is the effect of 101,688,580 options for the three and nine months ended September 30, 2012 (2011: nil) as their effect is anti-dilutive.

17. RISK MANAGEMENT

The Company has exposure to the following risks from its financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Foreign currency exchange risk;
- Commodity price risk; and
- Interest rate risk.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company, set appropriate limits and controls, and monitor risks and adherence to market conditions and the Company's activities.

Credit Risk

Credit risk is primarily related to the Company's receivables from joint venture partners and petroleum and natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable is with partners in the energy industry and is subject to normal industry credit risk. The Company generally grants unsecured credit but routinely assesses the financial strength of its partners. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding

Notes to the Consolidated Interim Financial Statements For the three and nine months ended September 30, 2012 (in Canadian dollars) (unaudited)

balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and occasional disagreements between parties. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however in certain circumstances, it may cash call a partner in advance of the work. As well, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells the majority of its production to one petroleum and natural gas marketer and, therefore, is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company historically has not experienced any collection issues with its petroleum and natural gas marketer.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection and, therefore the carrying amount of accounts receivable generally represents the maximum credit exposure. The balance of trade and other receivables greater than 90 days is \$48,000, of which \$33,000 was collected subsequent to September 30, 2012. For the three and nine months ended September 30, 2012, and the corresponding periods of 2011, the Group did not identify any receivables that would be considered overdue or impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares capital expenditures budgets which are regularly monitored and updated as considered necessary. As well, the Company utilizes authorizations for expenditures on operated and non-operated projects to further manage capital expenditures.

Market Risk

Market risk is the risk that changes in market prices such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to mitigate exposures within acceptable limits, while maximizing returns.

Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no foreign exchange rate contracts in place as at September 30, 2012.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Group has no financial commodity price contracts in place at September 30, 2012.

Notes to the Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2012
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Interest Rate Risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under its revolving bank credit facility. The Group has no interest rate swaps or hedges at September 30, 2012.

Capital Management

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity, loans and borrowings, and other working capital balances. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its working capital (deficiency) which is a non-GAAP measure calculated as follows:

	September 30, 2012	December 31, 2011
Current assets	1,830,507	2,680,225
Current liabilities, including loans and borrowings	1,413,773	6,430,666
Working capital (deficiency)	416,734	(3,750,441)

18. CHANGE IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital balances are comprised of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
	\$	\$	\$	\$
Accounts receivable	(231,950)	(30,609)	336,382	3,275
Prepayments and deposits	26,120	(88,183)	(49,011)	(61,305)
Trade and other payables	(1,444,515)	(3,529,558)	(1,176,892)	(1,763,200)
	(1,650,345)	(3,648,350)	(889,521)	(1,821,230)
Attributable to investing activities	(913,532)	(2,804,977)	(772,678)	(1,149,823)
Attributable to operating activities	(736,813)	(843,373)	(116,843)	(671,407)

The Company paid cash interest expense of \$478,284 and cash income tax of \$650,275 for the nine month period ended September 30, 2012.