Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Year Ended 31 December 2016

(Presented in U.S. Dollars)

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INTRODUCTION

The following management's discussion and analysis (the "**MD&A**") was prepared as at 27 April 2017 and is management's assessment of Falcon Oil & Gas Ltd.'s ("**Falcon**") financial and operating results and provides a summary of the financial information of the Company (as hereinafter defined) for the three months and year ended 31 December 2016. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2016 and 2015.

The information provided herein in respect of Falcon includes information in respect of its wholly-owned subsidiaries: Mako Energy Corporation, a Delaware company ("**Mako**"); TXM Oil and Gas Exploration Kft., a Hungarian limited liability company ("**TXM**"); Falcon Oil & Gas Ireland Ltd., an Irish limited liability company ("**Falcon Ireland**"); Falcon Oil & Gas Holdings Ireland Ltd., an Irish limited liability company ("**Falcon Holdings Ireland**"); Falcon Oil & Gas USA Inc., a Colorado company ("**Falcon USA**"); Falcon Exploration and Production South Africa (Pty) Ltd., a South African limited liability company ("**Falcon South Africa**") and its 98.1% majority owned subsidiary, Falcon Oil & Gas Australia Limited, an Australian limited liability company ("**Falcon Australia**") (collectively, the "**Company**" or the "**Group**").

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended 31 December 2016 dated 27 April 2017 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com and Falcon's website at www.falconoilandgas.com.

Forward-looking statements

Forward-looking statements include, but are not limited to, statements with respect to: the focus of capital expenditures; Falcon's acquisition strategy; the criteria to be considered in connection therewith and the benefits to be derived therefrom; Falcon's goal to sustain or grow production and reserves through prudent management and acquisitions; the emergence of accretive growth opportunities; Falcon's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; development costs and the source of funding thereof; the quantity of petroleum and natural gas resources or reserves; treatment under governmental regulatory regimes and tax laws; liquidity and financial capital; the impact of potential acquisitions and the timing for achieving such impact; expectations regarding the ability to raise capital and continually add to reserves through acquisition and development; the performance characteristics of Falcon's petroleum and natural gas properties; realisation of the anticipated benefits of acquisitions and dispositions; Falcon's ability to establish a broad institutional shareholder base in London, Dublin and Toronto and increase the volume of trading in common shares; expectations regarding the ability of Falcon to access additional sources of funding not currently available; and Falcon's ability to leverage its experience in the unconventional oil and gas industry to acquire interests in licenses.

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the Republic of Hungary, the Commonwealth of Australia, the Republic of South Africa and globally; supply and demand for petroleum and natural gas; industry conditions, including fluctuations in the price of petroleum and natural gas; governmental regulation of the petroleum and natural gas industry, including income tax, environmental and regulatory matters; introduction of a moratorium; fluctuation in foreign exchange or interest rates; risks and liabilities inherent in petroleum and natural gas operations, including exploration, development, exploitation, marketing and transportation risks; need to obtain regulatory approvals before development commences; environmental risks and hazards and cost of compliance with environmental regulations; aboriginal claims; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut-in or delayed; the ability of our industry partners to pay their proportionate share of joint interest billings; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisition of reserves, processing and transportation capacity, undeveloped land and skilled personnel; uncertainties inherent in estimating quantities of reserves and resources; the need to obtain required approvals from regulatory authorities; and the other factors considered under "**Risk Factors**" in Falcon's AIF dated 27 April 2017. The forward-looking statements contained in this document are expressly qualified by this cautionary statement. Falcon disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulation.

In addition, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements.

The following table outlines certain forward looking statements contained in this MD&A and provides material assumptions used to develop such forward looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

Page No.	Forward looking statements	Assumptions	Risk factors
7	*Overview of the business and overall performance - About the Group* "Falcon's strategy is to leverage the Group's expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the Board of Directors of Falcon (the "**Board**") believes support the exploitation of unconventional oil and gas."	The countries in which the Group operates support the exploitation of unconventional oil and gas.	The countries in which the Group operates may change their regulatory environment which might adversely impact the exploitation of unconventional oil and gas resources.
8	*Overview of the business and overall performance – Beetaloo Basin, Northern Territory, Australia - Overview* "The area is remote and sparsely populated and the Board believes it is well suited for oil and gas projects."	The area is well suited for oil and gas projects.	As the Beetaloo Basin is relatively under-explored it may not have shale oil, and shale gas commercial potential.
8	*Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity* "The Board believes the Beetaloo Basin is relatively underexplored and has shale oil and shale gas potential."	The Beetaloo Basin is relatively under-explored and has shale oil and shale gas commercial potential.	As the Beetaloo Basin is relatively under-explored it may not have shale oil and shale gas commercial potential.
8-9	Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity "…Falcon announced that Origin Energy Limited ("**Origin**") had submitted a notification of discovery and an initial report on discovery ("**Notification of Discovery**") to the Department of Primary Industry and Resources of the Northern Territory, Australia ("**DPIR**") on the Amungee NW-1H well............ prepared a contingent gas resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data."	A discovery has been made and a material gas resource announced, the Beetaloo Basin will continue to be explored.	Despite the Notification of Discovery and the announcement of a material gas resource commerciality may not be reached.
9	*Beetaloo basin, Northern Territory, Australia –Transformational Farm out of Beetaloo unconventional acreage* This section in the document from "On 21 August 2014…. finalised with the DPIR." contains forward-looking statements pertaining to the intended work programme, near term expectations and bringing the project toward commerciality.	The work programme will continue and the project will be brought towards commerciality.	The risks are (1) the work programme does not continue and /or (2) the project is not brought to commerciality.
9 -15	*Beetaloo basin, Northern Territory, Australia – Current Activity* This section of the document from "Kalala S-1 was the first of Falcon's fully funded and uncapped 2015 three well drilling and evaluation programme……. finalised with the DPIR." contains forward looking statements.	The Group has assumed that the nine well programme will continue as planned.	The risks are (1) the work programme does not continue and /or (2) the project is not brought to commerciality.
11	*Beetaloo basin, Northern Territory, Australia – Current Activity* "Falcon noted the statement made by Chief Minister …..in relation to the introduction of a moratorium on hydraulic fracturing….The joint venture has undertaken to work with the Government….. and shall cooperate … as required during their scientific inquiry."	The moratorium on hydraulic fracturing will be temporary for the independent scientific inquiry to be completed.	The independent scientific inquiry may be unduly delayed or result in an unfavourable outcome, both of which would adversely impact the work programme.

Page No.	Forward looking statements	Assumptions	Risk factors
13	*Beetaloo basin, Northern Territory, Australia – Current Activity* This section of the document from "Key Details of the Discovery Evaluation Report……. royalties over the permits" includes details of what was submitted to the Northern Territory Government which indicated an original gas in place ("**OGIP**") of 496 trillion cubic feet ("**TCF**") over 16,145km^2. The section also includes Origin's gross contingent resource estimate of 6.6TCF over 1,968km^2.	The OGIP and contingent gas resource calculated are the best estimates based on the drilling results to date and other data (including seismic) available.	The OGIP and contingent gas resource are only estimates and the project may not be brought to commerciality.
14	*Beetaloo basin, Northern Territory, Australia – Current Activity - Further information relating to disclosure of resources* This section of the document which includes the table beginning with "Well Name……to demonstrate that the project is technically feasible and a development plan has been generated, economics can be run to determine commerciality of production." contains forward looking statements.	The moratorium on hydraulic fracturing will be temporary for the independent scientific inquiry to be completed. The work programme will continue after the finalisation of the independent inquiry into hydraulic fracturing and the project will be brought towards commerciality.	The risks are (1) the independent scientific inquiry may be unduly delayed or result in an unfavourable outcome, both of which would adversely impact the nine well work programme and /or (2) the project is not brought to commerciality.
17	*Karoo basin, South Africa - Current Activity* "The South African Department of Mineral Resources ("**DMR**") informed members of South Africa's parliament in October 2014 that the government was soon expected to issue companies with licences to explore for shale gas."	The awarding of the exploration right over the acreage will occur in 2017.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.
17	*Karoo basin, South Africa - Current Activity* "On 9 March 2016 Falcon announced …..The Board now expects that the exploration right over the acreage will be awarded in 2017."	The awarding of the exploration right over the acreage will occur in 2017.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.
19	*Alberta, Canada* "Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred."	The Group does not intend to do any further exploration or development of these wells.	The Group may be called upon to increase its cash commitment to these wells, given its interest.
31	*Liquidity and Capital resources – Going concern* "….has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future."	The Group is a going concern.	Due to unforeseen expenditures, the Group may not have available cash to meet its liabilities as they fall due in the foreseeable future.
31	*Liquidity and capital resources – capital expenditures – Australia – Beetaloo Basin, Northern Territory, Australia* This section of the document from "The Group is conducting a nine well drilling programme…….. a revised timetable for the remaining work programme are being finalised with the DPIR."	The work programme will occur as expected and the project will be brought towards commerciality.	The risks are (1) the work programme does not continue and /or (2) the project is not brought to commerciality.

Page No.	Forward looking statements	Assumptions	Risk factors
32	*Liquidity and Capital resources – capital expenditures - Hungary - Makó Trough, Hungary* "The Group is not planning any independent technical operations in Hungary, and as such no material capital expenditures are expected."	The Group is not planning any independent technical operations in Hungary.	Unforeseen circumstances might require the Group to conduct independent technical operations, or accelerated decommissioning operations in Hungary and incur material expense.
32	*Debt and Equity Capital* "The availability of debt and equity capital, and the price at which additional capital could be issued will be dependent upon the success of the Group's exploration activities, and upon the state of the capital markets generally."	The Group will have continued access to raising funds in the capital markets.	The Group will have limited or no access to raising funds in the capital markets.
33	*Legal matters* "The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations."	The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.	The Company becomes involved in claims, disputes, litigation or other actions with third parties which could have a material adverse effect on its financial condition or results of operations.

Dollar amounts

All dollar amounts in this document are in United States dollars **"$"**, except as otherwise indicated. "**CDN$**" where referenced represents Canadian Dollars; "**£**" where referenced represents British Pounds Sterling, "**HUF**" where referenced represents Hungarian Forints and "**A$**" where referenced represents Australian Dollars.

The financial information provided herein has been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

OVERVIEW OF BUSINESS AND OVERALL PERFORMANCE

About the Group

Falcon is an international oil and gas company engaged in the acquisition, exploration and development of unconventional oil and gas assets. The Company's interests are located in internationally diversified countries that are characterised by a high regional demand for energy and are close to existing infrastructure allowing for rapid delivery of oil and gas to market in Australia and Hungary.

Falcon's strategy is to leverage the Group's expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the Board believes support the exploitation of unconventional oil and gas. Falcon seeks to add value to its assets by entering into farm-out arrangements with major oil and gas companies that will fully or partially carry Falcon through seismic and drilling work programmes. The Group's principal interests are located in two major underexplored basins in Australia and South Africa; with further interests in Hungary, covering approximately 12.3 million gross acres in total.

Falcon is incorporated in British Columbia, Canada and headquartered in Dublin, Ireland with a technical team based in Budapest, Hungary. Falcon's Common Shares are traded on Toronto's TSX Venture Exchange ("**TSX-V**") (symbol: FO.V); AIM, a market operated by the London Stock Exchange (symbol: FOG) and ESM, a market regulated by the Irish Stock Exchange (symbol: FAC).

Summary of Operations

The following table summarises the principal oil and gas interests of the Company in Australia, South Africa and Hungary:

Assets (Country)	**Interest (%)**	**Operator**	**Status**	**Gross Area (km^2)**
Exploration Permit EP-76 (Beetaloo Basin, Northern Territory, Australia)	30 [(i)]	Origin [(iii)]	Exploration	1,891.3
Exploration Permit EP-98 (Beetaloo Basin, Northern Territory, Australia)	30 [(i)]	Origin [(iii)]	Exploration	10,316.0
Exploration Permit EP-117 (Beetaloo Basin, Northern Territory, Australia)	30 [(i)]	Origin [(iii)]	Exploration	6,412.0
Technical Cooperation Permit, (Karoo Basin, South Africa) [(ii)]	100	Falcon	TCP	30,327.9
Makó Production Licence (Makó Trough, Hungary)	100	TXM	Production	994.6

Notes:
(i) Falcon owns 98.1% of Falcon Australia, which holds a 30% interest in the Beetaloo Exploration Permits. The remaining 1.9% interest of Falcon Australia is held by others.

(ii) In compliance with the terms of the Technical Cooperation Permit ("**TCP**"), the Company submitted its application for an exploration permit in August 2010. Local counsel has confirmed that despite the TCP expiry date of October 2010 having passed, the Company's interests remain valid and enforceable.

(iii) Falcon completed its farm-out with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), collectively referred to herein as (the **"Farminees**") on 21 August 2014. On completion, Origin was appointed as operator of the exploration permits.

Beetaloo Basin, Northern Territory, Australia

Overview
Falcon Australia is one of the three registered holders of approximately 4.6 million gross acres (approximately 18,619 km^2), 1.4 million net acres, of three exploration permits in the Beetaloo Basin, Northern Territory, Australia. The Beetaloo Basin is located 600 kilometres south of Darwin close to infrastructure including a highway, a pipeline and a railway, offering transport options to the Australian market and beyond via the existing and proposed liquified natural gas capacity in Darwin.

The Beetaloo Basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Basin covers approximately 8.7 million acres (approximately 35,260 km^2) and is a relatively underexplored onshore exploration basin, as far as the Company is aware. The area is remote and sparsely populated and the Board believes it is well suited for oil and gas projects. Australia has a developed resources industry with a stable political, legal and regulatory system.

Exploration Permits
A summary of Falcon Australia's Beetaloo exploration permits is contained in the table on the previous page.

In accordance with local law and regulations, all of Falcon Australia's acreage interests are subject to combined government and Northern Land Council royalties on production values of up to approximately 12% and 1% (subject to the exercise of Falcon Australia's call option - see "*Overriding Royalty Beetaloo Basin exploration permits*" for details) to other parties. Falcon Australia is subject to Commonwealth Government corporation tax of 30%, however where the entity has aggregated annual turnover of less than A$2 million for the financial year they would be considered a small business entity for Australian tax purposes and would be taxed at a lower rate of 28.5%. Falcon Australia is also subject to the Commonwealth Government's Petroleum Resource Rent Tax ("**PRRT**") levied at the rate of 40% on the taxable profits derived from the petroleum projects. The PRRT is calculated on the individual projects, and royalties are deductible for PRRT purposes. The PRRT tax system is separate from the company income tax system and is based on cash flow. Both royalties and PRRT are deductible for corporate income tax purposes.

Overriding Royalty - Beetaloo Basin exploration permits
On 1 November 2013, Falcon announced that Falcon Australia had entered into an agreement (**"CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% overriding royalty interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin. On 17 December 2013, it was announced that Falcon Australia had entered into an agreement (**"TOG Agreement"**) with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire up to 7% (seven eighths) of their 8% private ORRI over Falcon Australia's exploration permits in the Beetaloo Basin. The Group completed the two agreements to acquire 8% of the privately held ORRI at a total cost of $7 million, of which $1 million was paid in November 2013 and $6 million on completion of the Beetaloo farm–out with Origin and Sasol in August 2014. The Group has also secured an agreement to acquire a further 3% based on two five year call options granted to Falcon Australia at a future combined cost to Falcon Australia and its Farminee partners, in their proportionate share of $20 million leaving only a 1% royalty in private hands.

Discoveries and Prospectivity
The Board believes the Beetaloo Basin is relatively underexplored and has shale oil and shale gas potential. Work was previously undertaken by a Rio Tinto Group subsidiary company exploring for conventional hydrocarbons and while not leading to a conventional development, the data from the cores demonstrated the presence of tight oil and gas and several horizons were shown to be prospective for unconventional oil and gas.

There are no existing fields but there are numerous mudlog oil and gas shows and oil indications on cores throughout the Beetaloo Basin in prospective formations. The Shenandoah-1 well was a vertical hole well drilled by Sweetpea Petroleum Pty Ltd. ("**Sweetpea**") in 2007. The well was deepened by Falcon Australia in 2009 to finish at 2,714 metres. It was re-entered in Quarter 3 2011 and five short tests were conducted including several hydraulic fracture stimulation operations. Gas was recovered from three zones with some liquids.

During 2011 and 2012 Falcon Australia's previous joint venture partner, Hess Australia (Beetaloo) Pty. Ltd ("**Hess**"), acquired 3,490 kilometres of 2D seismic data, investing approximately $80 million at no cost to Falcon. The seismic database, along with existing well data, provided a very solid platform to extrapolate a detailed structural and stratigraphic model for the main parts of the Beetaloo Basin. All the necessary elements of a productive unconventional and conventional petroleum system have been identified in multiple shales and sand reservoirs, and it is now clear that the Beetaloo Basin is an active petroleum system.

On 12 October 2016 Falcon announced that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, Australia. The Notification of Discovery is a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act.

On 15 February 2017 Falcon announced Origin had submitted the Results of Evaluation of the Discovery and Preliminary Estimate of Petroleum in Place for the Amungee NW-1H Velkerri B Shale Gas Pool ("**Discovery Evaluation Report**") to the Northern Territory Government.

The Discovery Evaluation Report provides volumetric estimates and recovery / utilisation factors for the B Shale member of the Middle Velkerri formation within permits EP76, EP98, and EP117.

Origin also prepared a contingent gas resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data.

Full details relating to the Notification of Discovery, the Discovery Evaluation Report and the contingent gas resource estimate are included under the Current Activity heading on pages 12-15.

Transformational Farm out of Beetaloo unconventional acreage
On 21 August 2014, Falcon Australia completed its farm-out agreement and joint operating agreement (collectively the **"Agreements**") with the Farminees, each farming into 35% of Falcon Australia's exploration permits in the Beetaloo Basin, Australia (the **"Permits**").

The transaction details were:

- Falcon Australia received A$20 million cash from the Farminees.
- Origin was appointed as operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal programme over 2014 to 2018 inclusive, detailed as follows:
    - 3 vertical exploration/stratigraphic wells and core studies;
    - 1 hydraulic fracture stimulated vertical exploration well and core study;
    - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
    - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retained a 30% interest in the Permits.
- Farminees to pay for the full cost of completing the first five wells estimated at A$64 million, and to fund any cost overruns.
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic data collection with a capped expenditure of A$53 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A$48 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees may reduce or surrender their interests back to Falcon Australia only after:
    - The drilling of the first five wells; or
    - The drilling and testing of the subsequent two horizontally fracture stimulated wells.

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. Given the introduction of a moratorium on hydraulic fracturing in September 2016 by the Northern Territory government, there will be a delay to the completion of the nine well programme.

Falcon further notes that pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

Current Activity
On **15 July 2015**, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 was the first of Falcon's fully funded and uncapped 2015 three well drilling and evaluation programme. Kalala S-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. It is located within exploration permit 98, with access from the existing Carpentaria Highway. Rig 185, an ATS 400 was commissioned from Saxon Energy Services Australia Pty. Ltd, a Schlumberger company. On **1 September 2015** it was announced that drilling operations had successfully concluded on the Kalala S-1 well, with the well drilled to a total depth ("**TD**") of 2,619 metres.

On **8 September 2015** Falcon announced the spudding of the second well, the Amungee NW-1 well in the Beetaloo Basin, Australia. Amungee NW-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. On **22 October 2015** it was announced that drilling operations successfully concluded on the Amungee NW-1 well, with the well drilled to a TD of 2,611 metres.

The drilling of the first horizontal well in the Beetaloo Basin programme, originally planned for the end of 2016 was brought forward to October - November 2015. Based on the high gas saturation and favourable shale properties encountered in the Amungee NW-1 vertical well, the Middle Velkerri B shale was selected as the target of a 1,100 metre horizontal section, representing the "Amungee NW-1H" well.

The exploration program was also expanded with the introduction of Diagnostic Fracture Injection Tests ("**DFITs**"). DFIT is the most adequate tool to obtain reservoir quality data, such as pressure and permeability and completion quality data, all pertaining to the prospectivity of the Middle Velkerri shale gas play.

On **18 November 2015** Falcon announced the successful conclusion of drilling operations on the Amungee NW-1H horizontal well. Total measured depth was 3,808 metres, including a 1,100 metre horizontal section in the "B Shale" interval of the Middle Velkerri formation. The Amungee NW-1H well was suspended until the performance of the multi-stage hydraulic fracture stimulation planned for mid-2016.

Rig 185 was "warm stacked" on location in the Beetaloo basin to allow for the early commencement of the 2016 drilling program.

On **28 April 2016** Falcon provided the following update for its operations in the Beetaloo Basin, Australia.

2015 Drilling Programme - Technical Results
The results from the in-depth shale evaluation program and petrophysical analysis of the three wells drilled in 2015 confirmed the following:

- The Middle Velkerri and Kyalla shales offer stacked play fairways with continuity over a large proportion of the Beetaloo Basin and in various maturity windows (dry gas to liquid).
- Three pervasive, organic rich shale intervals were identified and characterised within the Middle Velkerri formation with excellent reservoir and completion quality. The identified "B" and "C" shales have thickness in excess of 40 metres each.
- Amungee NW-1H, the first horizontal well in the programme landed in the Middle Velkerri "B" shale encountering excellent gas shows and represents a highly prospective candidate for multi-stage hydraulic fracture stimulation.
- Core analysis confirmed that the Middle Velkerri shale is organic rich, with average Total Organic Carbon ("**TOC**") of 3%-4% and is gas saturated.
- DFIT data revealed that the Middle Velkerri shale is 20%-25% overpressured, which is encouraging from both a volumetrics and reservoir productivity perspective.
- Favourable geomechanics indicates good frackabability within the Middle Velkerri shale.
- Estimated gas in-place density ranges within the Middle Velkerri shales are comparable to successful North American shale plays.

2016 Drilling and Testing Programme - Objectives
The objectives of the 2016 Beetaloo drilling and testing programme comprised:

- Testing gas productivity of the Middle Velkerri shale from the horizontal Amungee NW-1H well by means of a multi-stage hydraulic fracture stimulation programme.
- Proving the areal extent of the Middle Velkerri shale gas play towards the southern part of the Beetaloo Basin, through the drilling and testing of the vertical Beetaloo W-1 well, which is to be located approximately 85km south of the Kalala S-1 and Amungee NW-1H wells; and some 35km south of the Shenandoah S-1 well.
- Testing of the shallower, condensate rich gas mature sections of the Middle Velkerri shale on the northern basin flank through drilling the second vertical well in 2016, located approximately 35km north of the Kalala S-1 and Amungee NW-1H wells within EP 98.
- Characterization of the Kyalla shale as a secondary target could provide upside and enhanced liquids potential.

On **22 June 2016** Falcon provided an operational update noting the following:

- Operations to re-enter the horizontal Amungee NW-1H well had commenced and Origin expected the running of production casing and cementing to be completed by the end of June.
- A multi-stage fracture stimulation programme to test the Middle Velkerri "B" shale reservoir would be performed on Amungee NW-1H.
- Civil works at the Beetaloo W-1 vertical well commenced mid-May 2016.

On **25 July 2016** Falcon announced the successful re-entry and casing of the Amungee NW-1H horizontal well and the spudding of the Beetaloo W-1 vertical well in the Beetaloo Basin, Australia.

Amungee NW-1H
The 1,100 metre horizontal section of Amungee NW-1H was successfully cased and cemented in July 2016 and preparations were finalised to conduct a multi-stage hydraulic stimulation.

Beetaloo W-1
The Beetaloo W-1 well was the fourth of Falcon's fully carried five well 2015-2016 drilling and evaluation programme.

- This well was spudded on 22 July 2016 and targeted the unexplored southern Beetaloo Basin for shale and hybrid shale-sand plays in the Velkerri and Kyalla formations.
- The well was designed to test the presence, depth, thickness and physical reservoir properties of the organic rich mudstones of the Kyalla Formation and the Middle Velkerri member.
- The well is located approximately 85 kilometres south of Kalala S-1 within exploration permit 117.
- Rig 185, an ATS 400 originally commissioned for the drilling of Kalala S-1, Amungee NW-1 and Amungee NW-1H from Saxon Energy Services Australia Pty. Ltd. was used.

On **14 September 2016** Falcon provided a technical and operational update and noted the following in relation to Northern Territory Government moratorium:

Beetaloo W-1 well
Drilling operations were successfully concluded on the Beetaloo W-1 well. Results encountered were very encouraging, with the well drilled to TD of 3,173 metres.

Preliminary evaluation of this vertical exploration well confirmed:

- The continuation of the regionally pervasive Middle Velkerri formation approximately 85 kilometres south of the Kalala S-1 and Amungee NW-1H wells.
- A gross interval of over 570 metres shale gas sequence with net pay exceeding 150 metres.
- Middle Velkerri shale falls in a highly prospective gas mature depth window.
- Excellent gas shows at two prospective shale sweet spots at the top and base of the Middle Velkerri formation, comparable to those encountered during the 2015 drilling programme.
- The Lower Kyalla formation, considered as a secondary shale target, provided excellent gas shows within a 150 metre thick liquid rich sequence.

Conventional coring in the Lower Kyalla formation along with sidewall cores and extensive wireline logging in the Middle Velkerri formation enabled a full-scale evaluation of prospectivity in the southern part of the Beetaloo basin. As planned, the well was cased to TD and suspended.

Rig 185 was released and demobilised.

Hydraulic Stimulation of the Horizontal Amungee NW-1H Well

- Hydraulic stimulation of the horizontal Amungee NW-1H well was completed.
- 11 hydraulic stimulation stages were performed over a 1,000 metre horizontal section.
- The flow back of hydraulic stimulation fluids had commenced, with an expectation that gas would start flowing back to surface within one to two weeks.

Northern Territory Government Moratorium
Falcon noted the statement made by Chief Minister Michael Gunner of the Northern Territory in relation to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia. The Chief Minster stated that:

"The moratorium on hydraulic fracturing of onshore unconventional reservoirs within the Northern Territory will remain in place until government has thoroughly considered the recommendations of the [independent scientific] inquiry."

The joint venture has undertaken to work with the Government to understand their moratorium policy and shall cooperate with them as required during their scientific inquiry.

On **29 September 2016** Falcon provided the following technical update regarding the hydraulic stimulation of the horizontal Amungee NW-1H well:

- Completion of 11 hydraulic stimulation stages along the 1,000 metre horizontal section in the Middle Velkerri B shale zone.
- Stimulation treatments were successfully executed, with 95% of programmed proppant placed.
- Flow back of hydraulic fracture stimulation fluid to surface continued.
- Early stage gas flow rates through the 4.5" casing were encouraging.
- The rates regularly exceeded 1 million standard cubic feet per day ("**MMscf/d**"), and consistently ranged between 0.4 - 0.6 MMscf/d.
- A workover rig was being mobilised to run production tubing and to commence an extended production test ("**EPT**").

On **12 October 2016** Falcon announced Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, Australia. The Notification of Discovery is a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act.

Details of Notification of Discovery from Origin to the DPIR were as follows:

- Origin gathered sufficient data to confirm the discovery of a petroleum accumulation.
- Production test data supported by petrophysical log data along with full and sidewall core analysis confirmed the discovery.
- Gas rates ranged between 0.8 and 1.2 MMscf/d with continuing flow back of hydraulic fracture stimulation fluid of volumes between 100 and 400 barrels per day.
- Initial estimates suggested a dry gas composition with less than 4% CO_2.
- Main physical properties of the discovered accumulation were thickness of 30 metres, between 4.0% and 7.5% porosity, a gas saturation range of 50% to 75%, and permeability between 50 and 500 nano-Darcy.
- Evaluation to determine the resource size was underway.

On **22 December 2016** Falcon announced the completion of the EPT on Amungee NW-1H by Origin.

Details of the EPT were as follows:

- Initial production over the first 30 days averaged 1.11 MMscf/d
- 63 MMscf was produced over the 57 days of the EPT, at an average rate of 1.10 MMscf/d
- The final rate of the EPT was 1.07 MMscf/d
- Completed in line with a regulatory approved plan with no environmental incidents
- The EPT concluded the 2016 drilling programme
- A final discovery report would be prepared for submission to the DPIR in Q1 2017.

On **15 February 2017** Falcon announced that Origin had submitted a Discovery Evaluation Report to the Northern Territory Government.

The submission followed the completion of extended production testing at the Amungee NW-1H exploration well of the "B Shale" member of the Middle Velkerri formation.

In addition, Origin undertook a resource study based on the Amungee NW-1H well results and other key wells in the Beetaloo Basin including regional seismic data to determine a best estimate ("**2C**") contingent gas resource estimate for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117.

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Key Details of the Discovery Evaluation Report

The Discovery Evaluation Report was submitted in compliance with Section 64 of the Northern Territory Petroleum Act (2016) and as per the Reporting a Petroleum Discovery Guideline. The Report followed the initial submission of the Notification of Discovery in October 2016. The Report provides the following volumetric estimates and recovery / utilisation factors for the B Shale member of the Middle Velkerri formation within permits EP76, EP98, and EP117.

Middle Velkerri B Shale Volumetric Estimates as of 15 February, 2017 ([1])		
	Gross	**Net Attributable ([2])**
	Best Estimate	**Best Estimate**
Area km^2 ([3])	16,145	4,751
Original Gas In Place ("**OGIP**") (TCF)([4])	496	146
Combined Recovery / Utilisation Factor ([5])	16%	16%
Technically Recoverable Resource (TCF)	85	25
OGIP Concentration (BCF/km^2) ([6])	31	31

[1] The Report and estimates included in the table above were not prepared in accordance with the Canadian Oil and Gas Evaluation Handbook ("**COGEH**")
[2] Falcon's working interest is 29.43%, net attributable numbers do not incorporate royalties over the permits
[3] Area defined by a depth range at a maturity cut-off consistent with the dry gas window within the Beetaloo JV Permits (EP79, EP98, EP117)
[4] Trillion cubic feet
[5] The combined recovery/utilization factor range was applied stochastically to the OGIP range to calculate the range of technically recoverable resource within the Beetaloo JV permits.
[6] Billion cubic feet per square kilometre

Understanding the factors controlling deliverability and recovery as well as spatial variation within the gas play/shale pool are in their infancy. A quantitative assessment of the aggregated estimated recoverable resource of the gas play that can handle these complexities will require a statistically significant number of wells testing the gas play. As there is only a single production test within the gas play Origin decided upon a qualitative assessment approach instead to estimate the technically recoverable resource. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

Factors considered in the qualitative assessment of technically recoverable hydrocarbon resource in the gas play were the stimulated rock volume recovery factor range, the subsurface utilization factor range and surface utilization factor range.

Origin's Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117

Origin also prepared a contingent resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data.

Assessment of 2C Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117 as of 15 February, 2017[1]		
Measured and Estimated Parameters	**Units**	**Best Estimate**
Area [2]	km^2	1,968
OGIP [3]	TCF	61.0
Gross Contingent Resource[4]	TCF	6.6
Net Contingent Resource[4,5]	TCF	1.98

[1] Contingent resource estimates were prepared on a statistical aggregation basis and in accordance with the Society of Petroleum Engineers Petroleum Resources Management System ("**SPE-PRMS**"). SPE-PRMS was developed by an international group of reserves evaluation experts and endorsed by the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, and the Society of Exploration Geophysicists. Contingent resource estimates are those quantities of gas (produced gas minus carbon dioxide and inert gasses) that are potentially recoverable from known accumulations but which are not yet considered commercially recoverable due to the need for additional delineation drilling, further validation of deliverability and original gas in place, and confirmation of prices and development costs. If the estimates were to be prepared in accordance with COGEH, Falcon is highly confident that there would be no change to the contingent resource estimates above.
[2] P50 area from the Contingent Resource area distribution
[3] OGIP presented is the product of the P50 Area by the P50 OGIP per km^2
[4] Estimated gas contingent resource category of 2C. There is no certainty that it will be commercially viable to produce any portion of the resources
[5] Net to Falcon's 29.43% working interest in EP76, EP98, and EP117, the net contingent resource number does not incorporate royalties over the permits

As noted in Origin's press release the "*The contingent resource estimates contained in [their] report are based on, and fairly represents, information and supporting documentation that have been prepared by Alexander Côté who is a full-time Origin employee and a Qualified Reserves and Resource Evaluator. Mr Côté is a registered professional engineer with specialised unconventional gas resource characterisation and development experience. Mr Côté has consented to the form and context in which these statements appear*". Mr Côté is a member of the Association of Professional Engineers and Geoscientists of Alberta.

Further information relating to the disclosure of the contingent gas resource estimates

Well Name	Amungee NW-1H
Permit / location	EP98 (onshore Beetaloo Basin Northern Territory, Australia)
Working interest in well	Falcon 29.43%
Product type	Shale gas
Geological rock type of formation drilled	Organic rich shale (mudstone and siltstone)
Depth of zones tested	~2170-2190 metres below sea level
Type of test	Production test following hydraulic fracture stimulation
Hydrocarbon phases recovered	Gas (Approximate composition: methane ~92%, ethane+ ~3%, carbon dioxide and inerts ~5%)
Flow rates and volumes	Average rate (57 days): 1.1 MMscf/d, Final production rate: 1.07 MMscf/d, Cumulative production: 63 MMscf
Number of fracture stimulation stages	11 stages (average size ~ 100 ton per stage)
Risks and level of uncertainty with recovery of resources	Risks and uncertainties include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, completing longer-duration production testing above the 57 days conducted on Amungee NW-1H, reducing well costs with scale of activity, establishing gas sales agreements and building infrastructure to connect the resource to market. Contingent on the moratorium being lifted, additional appraisal drilling is planned (as per the work program associated with the permits), along with hydraulic fracture stimulation and testing to assess deliverability and move the project towards commercialisation.
Significant positive and negative factors relevant to the estimate	Significant positive factors relevant to the estimate of the contingent resources include the successful well test at Amungee NW-1H which produced enough gas to surface to be of commercial interest; core and log data from Amungee NW-1H, Beetaloo W-1, Kalala S-1, Tanumbirini-1, McManus-1, Altree-2 and Walton-2 provide convincing evidence of a significant volume of moveable hydrocarbons; and the Marcellus Shale (Pa., USA) and Barnett Shale (Tx., USA) are analogous, commercially-productive fields that are similar to the Velkerri B Shale reservoir. Significant negative factors include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, the limited number of wells on the Company's acreage, lack of a developed service sector providing uncertainty regarding estimates of capital and operating costs, developing hydrocarbon regulations and environmental legislation and the requirement to obtain social acceptability for oil and gas operations.
Commerciality	Currently this project is based on a conceptual study. The economic status is undetermined at this time. The contingent resources will continue to be assessed as additional appraisal wells are drilled and tested in order to better evaluate the commercial potential of the play. After a sufficient number of wells have been drilled to demonstrate that the project is technically feasible and a development plan has been generated, economics can be run to determine commerciality of production.

Suspension of Drilling Operations

Since the introduction of a moratorium on hydraulic fracturing in September 2016, the Northern Territory Government established an independent scientific inquiry. Pending the outcome of this independent inquiry, Origin has requested a suspension of all drilling operations with the DPIR.

The Group had originally indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

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Karoo Basin, South Africa

Overview

The Company holds a TCP covering an area of approximately 7.5 million acres (approximately 30,327 km^2), in the southwest Karoo Basin, South Africa, granting the Company exclusive rights to apply for an exploration right over the underlying acreage. In August 2010, the Company submitted an application to the Petroleum Agency of South Africa ("**PASA**") for an exploration right over the TCP acreage. As part of the application process, the Company submitted an environmental management plan in January 2011 which the PASA requested to be updated in October 2014, this update was completed and submitted on 27 February 2015.

Technical Regulations

On 1 February 2011, the Minister of Mineral Resources (the "**Minister**") published a notice in the Government Gazette declaring a moratorium on processing new applications for the exploration and production of shale gas in the Karoo Basin. This moratorium did not extend to existing applications submitted prior to 1 February 2011 such as Falcon's. The moratorium was subsequently superseded by a notice published on 3 February 2014, which also excluded from its ambit applications submitted prior to 1 February 2011 subject to a condition that such applications, if granted, would not authorise hydraulic fracturing until regulations were in place to govern the process.

On 3 June 2015, the Minister published the final Regulations for Petroleum Exploration and Production, which prescribe various technical and environmental standards for onshore hydraulic fracturing. The promulgation of the regulations means that exploration companies may now conduct hydraulic fracturing if all necessary statutory approvals are in place.

Fiscal Terms

The Mineral and Petroleum Resources Development Act, 28 of 2002 empowers the Minister of Mineral Resources, when granting an application for an exploration right, to direct the applicant to sell an interest in the operation to a Historically Disadvantaged South African ("**HDSA**"). The amount of the interest is, in practice, derived from the Liquid Fuels Charter, which is a policy instrument governing participation by HDSAs in the petroleum industry. At the production stage of the project, it is a statutory condition for the grant of a production right that an HDSA holds 10% of the interest in the operation. The way in which HDSAs earn or pay for the 10% interest is not legislated, meaning that applicants are free to negotiate suitable terms with prospective HDSAs subject to the "unofficial approval" of the PASA. State participation in exploration and production rights are currently not addressed in legislation. In the past, the practice has been for exploration rights to incorporate a clause giving the State an option to acquire an interest of up to 10% in any production right granted through the national oil company. However, it is not required to pay any consideration for its 10% interest or contribute to past costs, but must contribute pro rata in accordance with its interest towards production costs going forward.

On 12 March 2014, South Africa's parliament approved the Mineral and Petroleum Resources Development Amendment Bill ("**MPRDA Bill**") which amends the Mineral and Petroleum Resources Development Act (28 of 2002). Among the proposed changes, the law provides the state with a free carried interest of 20% in all new gas and oil exploration and production ventures. In addition to this 20% free carried interest, the government introduced a new clause entitling it to further participation in the form of an acquisition at an agreed price or production sharing agreements. No percentage limit on this entitlement has been stated in the amendments. The MPRDA Bill only provides a framework and regulations must be promulgated to give effect to it. In Q2 2014, the then Minister requested the President of South Africa to delay the signing of the MPRDA Bill to investigate the matter further. In January 2015, the President of South Africa referred the MPRDA Bill back to the National Assembly for reconsideration.

Corporation tax in South Africa is imposed at a rate of 28% of taxable income. Dividends tax is imposed on the shareholder at a rate of 20%, but it may be reduced to 5% in terms of a Double Tax Agreement (if applicable), or to 0% in respect of dividends paid by an oil and gas company out of amounts attributable to its oil and gas income. The 20% rate is effective from 22 February 2017, prior to this date the rate of dividend tax was 15%.

The South African Government is entitled to a royalty on the sale of mineral resources of up to 7% of gross sales for unrefined resources and 5% of gross sales for refined resources, such as oil and gas.

Discoveries and Prospectivity

In its entirety, the Karoo Basin is approximately 173 million acres (approximately 700,000 km^2) in size, located in central and southern South Africa and contains thick, organic rich shales such as the Permian Whitehill Formation. The Karoo describes a geological period lasting some 120 million years and the rocks laid down during that period of time, covering the late Paleozoic to early Mesozoic interval periods. These rocks were deposited in a large regional basin and resulted in the build-up of extensive deposits. Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting in very limited modern hydrocarbon exploration onshore in South Africa. In an independent report dated June 2013, the U.S. Energy Information Administration ("**EIA**") estimated that there are 390 trillion cubic feet ("**Tcf**") technically recoverable resources in the Karoo Basin which would rank it fifth in the world after China, USA, Argentina and Mexico for shale gas potential. In particular, the Permian Ecca group contains three potential shales identified as having potential for shale gas. The shale in the Whitehall Formation, in particular, is considered ubiquitous, has a high organic content and is thermally mature for gas.

Cooperation agreement
In December 2012, Falcon entered into a cooperation agreement with Chevron Business Development South Africa Limited ("**Chevron**") to jointly seek unconventional exploration opportunities in the Karoo Basin. The Chevron agreement provides for Falcon to work with Chevron for a period of five years to jointly seek to obtain exploration rights in the Karoo Basin subject to the parties mutually agreeing participation terms applicable to each right. As part of the Chevron agreement, Chevron made a cash payment to Falcon of $1 million in February 2013 as a contribution to past costs.

Current activity
The DMR informed members of South Africa's parliament in October 2014 that the government was soon expected to issue companies with licences to explore for shale gas.

On 3 November 2014, Falcon was notified by the PASA that a decision had been taken to proceed with processing of the Company's application for a shale gas exploration licence in South Africa's Karoo Basin. The PASA requested Falcon to review and update its Environmental Management Programme where necessary. This was completed and submitted on 27 February 2015.

In May 2015, the South African government formally launched a 24-month strategic environmental assessment ("**SEA**") of shale gas mining in the Karoo, in an effort to understand the potential social, economic and environmental risks and opportunities of exploiting probable, but as yet unexplored, unconventional gas resources in the water-stressed territory. This SEA does not prevent exploration companies from conducting parallel exploration activities within this timeframe.

The scope of the SEA covers biodiversity and ecosystem services; water resources, including surface and groundwater; geophysics; economics, including the impact on agriculture and tourism; spatial planning; national energy planning; waste management; human health impacts; air quality; the impact on the social fabric; visual and noise impacts; heritage resources and the possible impact on the area's 'sense of place'.

On 9 March 2016 Falcon announced that the PASA confirmed it expected to finalise a recommendation to the Minister on Falcon's application for a shale gas exploration licence in South Africa's Karoo Basin, by May 2016.

On 4 November 2016 an updated MPRDA Bill was presented to a select committee of Parliament by the DMR.

Provincial meetings and public hearings relating to the updated MPRDA Bill commenced on 16 December 2016 and are ongoing.

There have been no further updates from the PASA on Falcon's application. The Board now expects that the exploration right over the acreage will be awarded in 2017.

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Makó Trough, Hungary

Overview
Falcon has been active in the Makó Trough since 2005 when it acquired two exploration licences, the Makó and the Tisza exploration licences. Between 2005 and 2007, Falcon pursued a work programme consisting of the acquisition of 1,100 km^2 of 3D seismic data and a six-well drilling programme. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. In 2007, Falcon's subsidiary, TXM, was awarded the 35-year Makó Production Licence which covers some of the acreage originally covered by the Makó and the Tisza exploration licences.

Hungary is an established oil and gas producing country. The Makó Production Licence is in the vicinity of the largest producing field in Hungary, the MOL Group owned and operated Algyő field, which has produced approximately 2.5 Tcf and 220 million barrels of oil to date. The Makó Production Licence is located approximately ten kilometres to the east of the MOL Group owned and operated Algyő field and is transected by existing gas pipelines and infrastructure, including a 12 kilometre gas pipeline built by Falcon in 2007, together offering transport and potential access to local markets and larger distribution centres for international markets.

Makó Production Licence
The Makó Production Licence was granted by the Hungarian Mining Authority over a gas exploration project in the Makó Trough, located in south-eastern Hungary. The lands within the Makó Production Licence were formerly part of the Group's two hydrocarbon exploration licences – the Tisza exploration licence and the Makó exploration licence.

The Makó Production Licence covers approximately 245,775 acres (approximately 1,000 km^2) and is held 100% by TXM, a wholly owned subsidiary of the Group. Under the terms of the Makó Production Licence, the Group is obliged to pay a 2% royalty to the Hungarian Government on any unconventional production and has a further 5% royalty payable under an agreement with Prospect Resources Inc., the previous owners of the acreage covered by the Makó Production Licence. Up to 31 December 2016 corporate profits were taxed at 19% on the part of the tax base which exceeded HUF500 million (approximately $1.8 million); below that level a reduced rate of 10% applied. From 1 January 2017, corporate income tax was reduced to a single rate of 9%, which is applicable to all levels of net income. 2009 saw the introduction of an additional profit based energy industry tax which is levied on energy supplying companies. The rate is 31%, with deductions allowable for certain capital expenditures. TXM is the operator and there are no outstanding work commitments on the Makó Production Licence.

Discoveries and Prospectivity
The Makó Trough contains two plays:

- a play targeting gas prospects in the shallower Algyő Play at depths between 2,300 metres and 3,500 metres; and
- a deeper unconventional play targeting significant contingent resources in the Deep Makó Trough.

The Algyő Play
The Algyő Play is a relatively shallow play of between 2,300 and 3,500 metres. A number of Falcon wells have been drilled through the Algyő Play in recent years, some of which encountered gas shows, but none of those wells tested the shallow play concept at an optimal location, as these wells targeted the Deep Makó Trough, at intervals of up to 6,000 metres. Multiple Algyő prospects were identified by the Group through extensive amplitude versus offset analysis, and 3D seismic data showed the presence of possible gas zones above the Szolnok formation (part of the Deep Makó Trough).

In January 2013, Falcon agreed to a three-well drilling exploration programme with Naftna industrija Srbije jsc ("**NIS**"), 56% owned by Gazprom Group, to target the Algyő Play, whereby NIS made a cash payment of $1.5 million to Falcon in February 2013, and agreed to drill three wells by July 2014.

Only two wells were drilled. Drilling operations on Kútvölgy-1, the first joint well were completed in July 2013, the well having reached TD of 3,305 metres. As anticipated, the top of the Algyő Formation was encountered at 2,985 metres, the well then penetrating an alternating sequence of sandstones, siltstones and shales over a gross interval of 320 metres to TD, with gas shows throughout. Two conventional cores were taken and extensive wireline logs were run. Testing indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates thus was discontinued with the well being plugged and abandoned.

On 27 November 2014 Falcon announced that well testing operations on the second well, Besa-D-1 were completed. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated that well production did not meet commercial rates with the well also being plugged and abandoned. On 3 December 2015, Falcon announced it had signed a termination agreement with NIS terminating the Oilfield Services Contract entered into between the parties in January 2013. NIS paid $3.7 million to Falcon in fulfilment of its contractual obligations. Falcon retains a 100% interest in the Algyő Play.

The Deep Makó Trough
This is a deeper unconventional play targeting gas, and to a lesser extent oil, in the low permeability and low porosity rocks in the deeper horizons of the basin.

Between 2005 and 2007, Falcon acquired 1,100 km^2 of 3D seismic data and executed a six-well drilling programme on the Deep Makó Trough. Early exploration efforts focused on proving hydrocarbon potential and delineation of the basin in order to secure the Makó Production Licence. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. Several wells flowed gas on test and one well, Magyarcsanád-1, tested light oil. The Makó-7 results demonstrated the presence of a very large column of hydrocarbons in the well-bore. As noted previously, Falcon constructed a 12 kilometre gas pipeline in 2007 which connected the Makó-6 and Makó-7 wells with a MOL operated pipeline, offering potential access to local and international markets.

Current activity
During Q1 2015, the Group placed US$2.0 million on deposit for the benefit of the Hungarian mining authority as a security deposit with regards the Group's decommissioning obligations.

On 3 December 2015, Falcon announced that it had signed a termination agreement with NIS terminating the Oilfield Services Contract entered into between the parties in January 2013. NIS agreed to pay $3.7 million to Falcon in fulfilment of its contractual obligations; this was received in December 2015. Falcon retains a 100% interest in the Makó Trough Licence in Hungary including the deep play.

On 9 March 2016 Falcon indicated it continues to review its operation and future plans in Hungary, evaluating all options available to the Group to deliver shareholder value. The Group maintains its 100% interest in the Máko Trough.

Alberta, Canada

For the year ended 31 December 2016, Falcon had revenue of $6,000 (2015: $7,000) earned from its Alberta, Canada non-operating working interests (the "**Hackett Interest**"). Falcon's Alberta interests are in three producing and one shut-in, natural gas wells. Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred.

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SELECTED ANNUAL INFORMATION

(In thousands of $ unless otherwise indicated)	**2016**	**2015**	**2014**
For the year ended 31 December:			
Revenues	6	7	26
Net loss	(3,690)	(200)	(31,768)
Basic & diluted - Loss per share - $	(0.004)	(0.000)	(0.034)
Cash dividend per share	Nil	Nil	Nil
At 31 December:			
Total assets	52,127	54,894	55,353
Non-current liabilities	9,690	9,565	9,493

The Group is an exploration company with limited immaterial revenue. The Group's net loss and net loss per share relate to the Group's operations during a particular period and are not seasonal in nature.

The net loss had consistently decreased from 2011 to Quarter 3 2014. This was attributed to the focus by the Group's new management (who commenced mid 2012) to reducing costs. In Quarter 4 2014 an impairment charge was recorded against the carrying value of the Group's Hungarian assets in the amount of $26.6 million. This charge followed an impairment test completed on the assets in the Hungarian cost pool. The test demonstrated that the estimated recoverable amount of the E&E and PPE in the pool was insufficient to cover the carrying amount of these assets. The principal impairment indicator was the Company's ability to finance future exploration to commercially develop the asset. This was the primary reason for the increase in 2014.

The Group significantly reduced costs again in 2015, focusing on the retrenchment of its Hungarian operations. The losses for the twelve months ended 31 December 2015 were offset by the $3.7 million payment from NIS for the fulfilment of its contractual obligations.

For the twelve months of 2016 management continued to focus on cost containment and incurred losses of $3.7 million, which included a share based compensation charge of $1.3 million. Management continue to review costs for reduction opportunities where possible.

Generally, the Group's total assets, exploration and evaluation costs, working capital and total shareholders' equity fluctuate in proportion to one another until such time as the Group completes additional financing.

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RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2016 and 2015.

Management's Discussion and Analysis of financial condition and results of operations for the three months ended 31 December 2016 as compared to the three months ended 31 December 2015

The Company reported a loss of $0.8 million for the three months ended 31 December 2016 as compared to a net income of $1.8 million for the three months ended 31 December 2015. Changes between 2016 and 2015 were as follows:

	Three months ended 31 December		Changes	
	2016	2015		
	$'000	$'000	$'000	%
Revenue				
Oil and natural gas revenue	**2**	1	1	100%
	2	1	1	100%
Expenses				
Exploration and evaluation expenses	**(73)**	(86)	13	-15%
Production and operating expenses	**(3)**	(5)	2	-40%
Depreciation	**(4)**	(14)	10	-71%
General and administrative expenses	**(453)**	(661)	208	-31%
Share based compensation	**(83)**	(27)	(56)	207%
Foreign exchange loss	**(101)**	(898)	797	-89%
	(717)	(1,691)	974	-58%
Other income	**-**	3,593	(3,593)	-100%
Results from operating activities	**(715)**	1,903	(2,618)	-138%
Fair value (loss) / gain – outstanding warrants	**(23)**	57	(80)	-140%
Finance expense				
Interest income on bank deposits	**20**	3	17	567%
Accretion of decommission provisions	**(31)**	(31)	-	0%
Net foreign exchange loss	**(21)**	(17)	(4)	24%
	(32)	(45)	13	-29%
(Loss) / income before taxation	**(770)**	1,915	(2,685)	-140%
Taxation	**-**	(110)	110	-100%
(Loss) / income and comprehensive (loss) / income	**(770)**	1,805	(2,575)	-143%
(Loss) / income and comprehensive (loss) / income attributable to:				
Equity holders of the company	**(769)**	1,807	(2,576)	-143%
Non-controlling interest	**(1)**	(2)	1	-50%
(Loss) / income and comprehensive (loss) / income	**(770)**	1,805	(2,575)	-143%

Oil and natural gas revenue
Oil and natural gas revenue of $2,000 (2015: $1,000) consists of the sale of natural gas from the Hackett Interest in Alberta, Canada. The Company has not yet realised significant revenue from its planned operations elsewhere.

Exploration and evaluation expenses

	Three months ended 31 December		Change	
	2016	**2015**		
	$'000	**$'000**	**$'000**	**%**
Consulting, legal and other associated costs	**(13)**	(19)	6	-32%
Well related costs	**(60)**	(67)	7	-10%
	(73)	(86)	13	-15%

Exploration and evaluation expenses represent recurring maintenance and landowners costs in maintaining and safeguarding the Group's Hungarian wells along with exploration costs associated with the Group's TCP in South Africa. The decrease in costs quarter on quarter is primarily attributable to a reduction in payroll and well maintenance costs in Hungary and the non-recurrence of costs associated with the Company's TCP in 2016.

Depreciation
The three months ended 31 December 2016 and 31 December 2015 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office.

General and administrative expenses

	Three months ended 31 December		Change	
	2016	**2015**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(28)**	(43)	15	-35%
Consulting fees	**(23)**	(14)	(9)	64%
Legal fees	**(5)**	(36)	31	-86%
Investor relations	**(22)**	(116)	94	-81%
Office and administrative costs	**(60)**	(77)	17	-22%
Payroll and related costs	**(237)**	(255)	18	-7%
Directors' fees	**(60)**	(69)	9	-13%
Travel and promotion	**(18)**	(51)	33	-65%
	(453)	(661)	208	-31%

General and administrative expenses decreased by $0.2 million to $0.5 million in 2016 from $0.7 million in 2015. The main changes were as follows:

- Accounting and audit fees: The decrease is due to management's focus on managing the costs of accounting and audit fees incurred by the Group.
- Consulting and Legal fees: The overall decrease is due to the on-going focus on cost containment by management during the period.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. The decrease of the three months ended 31 December 2016 in comparison with the three months ended 31 December 2015 is due to a reduction in advisor costs during the period.
- Office and Administrative expenses have decreased in the period due to the ongoing focus on managing costs incurred by the Group.
- Travel and promotion decreased in the current three month period in comparison with the comparative three months to December 2016. Certain levels of travel and promotion costs are due to the international geography of the Group's assets and investor base.

Share based compensation
Share based compensation expense increased in the three months ended 31 December 2016 in comparison to the three months ended 31 December 2015. The increase occurred as a result of the granting of 38.7 million options in January 2016, one third of which vested immediately, with an additional one third vesting on each subsequent anniversary until they are fully vested in January 2018.

Foreign exchange loss
The foreign exchange loss recorded in operating expenses for the three months ended 31 December 2016 is attributed to unfavourable movements to the US Dollar since 30 September 2016. The foreign exchange loss recorded for the three month period ended 31 December 2015 was primarily attributed to the revaluation of the Hungarian decommissioning provision at 31 December 2015. The provision was estimated in US dollar at 31 December 2015, thus no similar exchange occurred in the three months to 31 December 2016.

Other Income
Other income has decreased period on period. The 2015 income related to a cash payment of $3.7 million made by NIS in December 2015 for the fulfilment of its contractual obligations.

Fair value (loss) / gain – outstanding warrants
There is an increase on the fair value loss from the three months ended 31 December 2015 to the three months ended 31 December 2016. The primary factor associated with this valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN13.0 cents at 30 September 2015 to CDN12.5 cents at 31 December 2015. For the similar three months in 2016, the valuation movement in the hess warrant was driven by the increase in the share price from CDN8.5 cents at 30 September 2016 to CDN9 cents at 31 December 2016.

Finance expense
The movement is primarily due to an increase in interest income received from bank deposits period on period which offset other finance expenses which remained relatively constant period on period.

Taxation
In 2015 taxation arose on profits generated in TXM primarily as a result of the NIS $3.7 million receipt which offset 2015 expenses incurred relating to ongoing activities in Hungary. There were no similar transactions in 2016 which would trigger a tax liability.

Loss attributable to non-controlling interest
The amounts reflected in 2016 and 2015 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Three months ended 31 December	
	2016	2015
	$'000	$'000
Net cash used in operating activities	**(460)**	(840)
Net cash (used in) / generated by investing activities	**(551)**	7,700
Change in cash and cash equivalents	**(1,011)**	6,860
Effect of exchange rates on cash & cash equivalents	**(33)**	(19)
Cash and cash equivalents at beginning of period	**6,901**	3,842
Cash and cash equivalents at end of period	**5,857**	10,683
Cash on deposit – maturity greater than three months	**4,270**	2,000
	10,127	12,683

Cash and cash equivalents have decreased by $4.8 million to $5.9 million in 2016 from $10.7 million in 2015. The main changes were as follows:

- Net cash used in operating activities: The decrease is due to focus on managing the costs of operating expenses incurred by the Group.
- Net cash (used in) / generated by investing activities: The 2016 decrease is due primarily to cash placed on deposit with a maturity greater than three months at the period end date. The cash generated in 2015 related to the receipt of funds from NIS for the fulfilment of their contractual obligations and cash coming off deposit with a maturity greater than three months.

RESULTS OF OPERATIONS

Management's Discussion and Analysis of financial condition and results of operations for the year ended 31 December 2016 as compared to year ended 31 December 2015

The Company reported a loss of $3.7 million for the year ended 31 December 2016 compared to a loss of $0.2 million for the year ended 31 December 2015. Changes between 2016 and 2015 were as follows:

	Year ended 31 December		Changes	
	2016	2015		
	$'000	$'000	$'000	%
Revenue				
Oil and natural gas revenue	**6**	7	(1)	-14%
	6	7	(1)	-14%
Expenses				
Exploration and evaluation expenses	**(336)**	(679)	343	-51%
Production and operating expenses	**(15)**	(20)	5	-25%
Depreciation	**(16)**	(39)	23	-59%
General and administrative expenses	**(2,037)**	(2,491)	454	-18%
Share based compensation	**(1,335)**	(256)	(1,079)	421%
Foreign exchange loss	**(73)**	(143)	70	-49%
	(3,812)	(3,628)	(184)	5%
Other income	**-**	3,594	(3,594)	-100%
Results from operating activities	**(3,806)**	(27)	(3,779)	13996%
Fair value gain – outstanding warrants	**208**	79	129	163%
Finance expense				
Interest income on bank deposits	**53**	78	(25)	-32%
Accretion of decommission provisions	**(124)**	(123)	(1)	1%
Net foreign exchange loss	**(21)**	(97)	76	-78%
	(92)	(142)	50	-35%
Loss before taxation	**(3,690)**	(90)	(3,600)	4000%
Taxation	**-**	(110)	110	-100%
Loss and comprehensive loss	**(3,690)**	(200)	(3,490)	1745%
Loss and comprehensive loss attributable to:				
Equity holders of the company	**(3,687)**	(193)	(3,494)	1810%
Non-controlling interest	**(3)**	(7)	4	-57%
Loss and comprehensive loss	**(3,690)**	(200)	(3,490)	1745%

Oil and natural gas revenue
Oil and natural gas revenue of $6,000 (2015: $7,000) consists of the sale of natural gas from the Hackett Interest in Alberta, Canada. The Group has not yet realised significant revenue from its planned operations elsewhere.

Exploration and evaluation expenses

	Three months ended 31 December		Change	
	2016	**2015**		
	$'000	**$'000**	**$'000**	**%**
Consulting, legal and other associated costs	**(67)**	(282)	215	-76%
Well related costs	**(269)**	(397)	128	-32%
	(336)	(679)	343	-51%

Exploration and evaluation expenses represent recurring maintenance and landowner costs in maintaining and safeguarding the Company's Hungarian wells along with exploration costs associated with the Company's TCP in South Africa. The decrease in costs period on period is attributable to savings materialising as a result of the restructuring of the Group's technical function in Budapest in 2015 and the non-recurrence of costs incurred by the Group in updating its environmental management plan as requested by the South African PASA during the year ended 31 December 2015 along with other one off costs associated with the Company's TCP.

Depreciation
The year ended 31 December 2016 and 31 December 2015 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office.

General and administrative expenses

	Year ended 31 December		Change	
	2016	**2015**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(128)**	(226)	98	-43%
Consulting fees	**(83)**	(69)	(14)	20%
Legal fees	**(31)**	(89)	58	-65%
Investor relations	**(135)**	(314)	179	-57%
Office and administrative costs	**(362)**	(369)	7	-2%
Payroll and related costs	**(925)**	(990)	65	-7%
Directors' fees	**(258)**	(276)	18	-7%
Travel and promotion	**(115)**	(158)	43	-27%
	(2,037)	(2,491)	454	-18%

General and administrative expenses decreased by $0.5 million to $2 million in 2016 from $2.5 million in 2015. The main changes were as follows:

- Accounting and audit fees: The decrease is due to a focus on managing the costs of accounting and audit fees incurred by the Group.
- Consulting and Legal fees: The overall fees have reduced year on year due to the on-going focus on cost containment by management during the period.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. The decrease of the twelve months ended 31 December 2016 in comparison with same period for 2015 is due to a reduction in advisor costs during the period.
- Office and Administrative expenses have increased due to one off costs associated with the Dublin office relocation in May 2016.
- Travel and promotion decreased in the current twelve month period over the comparative nine months. Certain levels of travel and promotion costs are due to the international geography of the Group's assets and investor base.

Share based compensation
Share based compensation expenses increased in the year ended 31 December 2016 in comparison to the year ended 31 December 2015. The year ended 31 December 2016 includes a charge of $1.3 million for the proportionate share of the 38.7 million options granted in January 2016, one third of which vested upon granting.

Foreign exchange loss
The foreign exchange loss recorded in operating expenses for the year ended 31 December 2016 is attributed to unfavorable movements to the US Dollar since 31 December 2015. The foreign exchange loss for the year 31 December 2015 was primarily attributed to the weakening Euro relative to the US Dollar in the twelve month period.

Other Income
Other income has decreased year on year. The 2015 balance related to a cash payment of $3.7 million made by NIS in December 2015 for the fulfilment of its contractual obligations.

Fair value gain – outstanding warrants
The outstanding warrants increased from a gain of $0.1 million in the twelve months ended 31 December 2015 to a gain of $0.2 million in the twelve months ended 31 December 2016. The primary factor associated with the 2015 valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN11.5 cents at 31 December 2014 to CDN12.5 cents at 31 December 2015. For the twelve month period to 31 December 2016 the increased gain was associated with Falcon's share price moving from CDN12.5 cents at 31 December 2015 to CDN9 cents at 31 December 2016.

Finance expense
Net finance expense saw movement from an expense of $0.14 million in 2015 to $.09 million in 2016. The favourable movement in foreign exchange losses of $0.08 million period on period was offset by reduced interest income on bank deposits by $0.03 million in the same period.

Taxation
In 2015 taxation arose on profits generated in TXM primarily as a result of the NIS $3.7 million receipt which offset expenses incurred relating to ongoing activities in Hungary. There were no similar transactions in 2016 which would trigger a tax liability.

Loss attributable to non-controlling interest
The amounts reflected in 2016 and 2015 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Year ended 31 December **2016** **$'000**	2015 $'000
Net cash used in operating activities	**(2,437)**	(3,384)
Net cash (used in) / generated by investing activities	**(2,362)**	5,599
Change in cash and cash equivalents	**(4,799)**	2,215
Effect of exchange rates on cash & cash equivalents	**(27)**	(285)
Cash and cash equivalents at beginning of period	**10,683**	8,753
Cash and cash equivalents at end of period	**5,857**	10,683
Cash on deposit – maturity greater than three months	**4,270**	2,000
	10,127	12,683

Cash and cash equivalents have decreased by $4.8 million to $5.9 million in 2016 from $10.7 million in 2015. The main changes were as follows:

- Net cash used in operating activities: The decrease is due to focus on managing the costs of operating expenses incurred by the Group.
- Net cash used in investing activities: The 2016 outflow is due primarily to the placing of cash on deposit with a maturity in excess of three months at 31 December 2016. The 2015 inflow is a result of a decrease in cash on deposit of $4 million and a cash inflow of $3.7 million from NIS for the fulfillment of their contractual obligations. This $7.7 million is offset by $2 million placed on deposit for the benefit of the Hungarian mining authority.
- Effect of exchange rates on cash & cash equivalents: is attributed to movements in the US Dollar.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of the eight most recently completed quarters:

(In thousands of $ unless otherwise stated)

As of:	**31 March 2016**	**30 June 2016**	**30 September 2016**	**31 December 2016**
Total assets	54,232	53,274	52,763	52,127
Exploration and evaluation assets	39,618	39,618	39,618	39,618
Working capital	11,042	10,326	9,974	9,458
Total shareholders' equity	42,767	41,926	41,561	40,875

For the three months ended:	**31 March 2016**	**30 June 2016**	**30 September 2016**	**31 December 2016**
Revenue	-	1	3	2
Loss	(1,282)	(1,053)	(586)	(770)
Loss attributable to common shareholders	(1,280)	(1,052)	(585)	(769)
Loss per share-basic and diluted (cent)	(0.001)	(0.001)	(0.001)	(0.001)

As of:	**31 March 2015**	**30 June 2015**	**30 September 2015**	**31 December 2015**
Total assets	53,990	53,032	52,201	54,894
Exploration and evaluation assets	39,616	39,616	39,616	39,618
Working capital	10,137	9,109	8,773	11,555
Total shareholders' equity	43,091	41,755	41,392	43,227

For the three months ended:	**31 March 2015**	**30 June 2015**	**30 September 2015**	**31 December 2015**
Revenue	3	1	2	1
(Loss) / income	(237)	(1,376)	(392)	1,805
(Loss) / income attributable to common shareholders	(235)	(1,375)	(390)	1,807
(Loss) / income per share-basic and diluted (cent)	0.000	(0.001)	0.000	0.000

The Group is an exploration company with limited revenue which is not material. The Group's (loss) / income and (loss) / income per share relate to the Group's operations during a particular period, and are not seasonal in nature.

Quarter 1 2015: On 26 January 2015, the Group announced the expiry of the extension granted to NIS, regarding their three-well drilling programme in Falcon's Makó Trough Licence in Hungary. The July 2014 deadline for completion of drilling and testing of the three-well programme was extended by Falcon to 31 December 2014 to enable NIS to fulfil its three well obligation. NIS had only drilled and tested two wells.

On 27 January 2015 Falcon granted incentive stock options ("**Options**") to purchase an aggregate of 6 million common shares of Falcon to a number of recipients, including directors and officers under the stock option plan approved at Falcon's annual shareholders meeting held on 10 December 2014. A maximum of 10% of the issued and outstanding shares of Falcon are reserved for issuance pursuant to Falcon's stock option plan. The options were granted at an exercise price of CDN$0.15 (a 26% premium to the closing share price on 23 January 2015) to the following:

	Number of Options granted	**Total number of Options held after grant**
John Craven - Non-Executive Chairman	1,000,000	4,100,000
Philip O'Quigley - CEO	2,000,000	8,000,000
Michael Gallagher - CFO	3,000,000	3,300,000
Total	**6,000,000**	**15,400,000**

The Options granted to Mr. Craven and Mr. O'Quigley vested at the time of grant. The Options have an expiry date of 25 January 2020. The Options granted to Mr. Gallagher have a vesting schedule allowing for 1/3 of the Options to vest on the first anniversary of the grant with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 25 January 2018. The Options have an expiry date of 25 January 2020.

Quarter 2 2015: On 29 May 2015, the Group announced that drilling operations had commenced on its initial three well fully funded drilling campaign in the Beetaloo Basin. Civil works on the first well, "Kalala S-1" were under way. Kalala S-1 is located within exploration permit 98.

Quarter 3 2015: On 15 July 2015, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 is the first of Falcon's fully funded and uncapped, 2015 three well drilling and evaluation programme in the Beetaloo Basin.

On 1 September 2015 Falcon announced that drilling operations had successfully concluded on the Kalala S-1 well. Results encountered were encouraging, with the well drilled to a total depth ("**TD**") of 2,619 metres.

On 8 September 2015 Falcon announced the spudding of the second well, Amungee NW-1 well in the Beetaloo Basin, Australia. The well is located approximately 25 kilometres east of the first well drilled, Kalala S-1.

Quarter 4 2015: On 22 October 2015 it was announced that drilling operations successfully concluded on the Amungee NW-1 well. Results encountered are very encouraging, with the well drilled to a TD of 2,611 metres.

Following the encouraging results of the first two wells, it was decided to bring forward the drilling of the first horizontal well in the Beetaloo Basin, originally planned for the end of 2016, into October-November 2015.

On 18 November 2015 Falcon announced the successful conclusion of drilling operations on the Amungee NW-1H horizontal well. Total measured depth was 3,808 metres, including 1,100 metres horizontal section in the "B Shale" interval of the Middle Velkerri Formation. Results obtained to date are very encouraging.

On 3 December 2015, Falcon announced that it had signed a termination agreement with NIS terminating the Oilfield Services Contract entered into between the parties in January 2013. NIS agreed to pay $3.7 million to Falcon in fulfilment of its contractual obligations. This was received in December 2015. Falcon retains a 100% interest in the Makó Trough Licence in Hungary including the deep play. The $3.7million received less costs has been recorded as "other income" in the consolidated statement of operations and comprehensive loss at 31 December 2015.

Quarter 1 2016: On 18 January 2016 Falcon announced that on 15 January 2016 it granted incentive stock options ("Options") to purchase an aggregate of 38,700,000 common shares of Falcon to a number of recipients, including directors and officers under the stock option plan approved at Falcon's annual shareholders meeting held on 9 December 2015. The Option grant was subject to regulatory approval by the TSX Venture Exchange. A maximum of 10% of the issued and outstanding shares of Falcon are reserved for issuance pursuant to Falcon's stock option plan. The Options were granted at an exercise price of CDN$0.11 being the closing share price on the TSX Venture Exchange on 15 January 2016. The following directors and officers were granted Options:

Name	Number of Options granted	Total number of Options held after grant
JoAchim Conrad – Non- Executive Chairman	4,000,000	4,700,000
Philip O'Quigley – CEO	12,000,000	20,000,000
Michael Gallagher - CFO	6,000,000	9,300,000
Daryl Gilbert – Non- Executive Director	2,500,000	3,200,000
Greg Smith – Non- Executive Director	2,500,000	3,200,000
Dr. György Szabó – Non Executive Director	2,500,000	4,000,000
John Craven - Non- Executive Director	2,500,000	6,300,000
Maxim Mayorets – Non- Executive Director	2,500,000	2,500,000

The Options granted have a vesting schedule allowing for 1/3 of the Options to vest immediately with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 14 January 2018. The Options have an expiry date of 14 January 2021.

Quarter 2 2016: On 28 April 2016 Falcon provided a technical and operational update for its operations in the Beetaloo Basin, Australia. On 22 June 2016 Falcon provided a further operational update for Australia.

Quarter 3 2016: On 25 July 2016 Falcon announced the successful re-entry and casing of Amungee NW-1H horizontal well and the spudding of the Beetaloo W-1 vertical well in the Beetaloo Basin, Australia.

On 14 September 2016 Falcon provided a technical and operational update on the successful conclusion of drilling operations on the Beetaloo W-1 well along with the completion of the hydraulic stimulation of the horizontal Amungee NW-1H well. Falcon also noted the statement made by Chief Minister Michael Gunner of the Northern Territory, relating to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia.

On 29 September 2016 Falcon provided a technical update regarding the hydraulic stimulation of the horizontal Amungee NW-1H well in the Beetaloo Basin, Australia.

Quarter 4 2016: On 12 October 2016 Falcon announced that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, Australia.

On 22 December 2016 Falcon announced the completion of the EPT on Amungee NW-1H by Origin.

For further details of 2016 updates please refer to the Beetaloo basin, Northern Territory, Australia – Current Activity section of this document.

Quarter 1 2017 to date: On 15 February 2017 Falcon announced that Origin had submitted the Discovery Evaluation Report to the Northern Territory Government. The submission followed the completion of the EPT at the Amungee NW-1H exploration well of the "B Shale" member of the Middle Velkerri Formation. The report provides volumetric estimates and recovery / utilisation factor for the B Shale member of the Middle Velkerri Formation within permits EP76, EP98, and EP117.

Origin also prepared a contingent resource estimate using probabilistic methods and reservoir evaluation data.

Falcon further notes that pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

On 21 February 2017 Falcon announced that on 20 February 2017 Philip O'Quigley, a director of the Company, gave notice to the Company of his intention to exercise incentive stock options to purchase an aggregate of 6,000,000 common shares in the Company at a price of CDN$0.10 per share.

The stock options were granted to Mr O'Quigley on 1 May 2012 under Falcon's approved stock option plan and were due to expire on 30 April 2017.

Mr O'Quigley subsequently sold 4,500,000 shares through a placing with an unrelated private investor at GBP 0.145 (equivalent to CDN$0.237) per share. The closing price on the AIM market in London on 20 February 2017 was GBP 0.15.

Following the exercise of the 6,000,000 Options and subsequent sale of the 4,500,000 common shares, Mr O'Quigley had the following shareholdings in the Company:

Name	Number of Stock Options	Number of Shares
Philip O'Quigley	14,000,000	3,013,696

On 23 February 2017 Falcon announced that on 22 February 2017 it granted incentive stock options to purchase an aggregate of 6,000,000 common shares of Falcon to Anne Flynn, Chief Financial Officer of Falcon under the stock option plan approved at Falcon's annual shareholders meeting held on 21 June 2016. The Option grant is subject to regulatory approval by the TSX Venture Exchange. A maximum of 10% of the issued and outstanding shares of Falcon are reserved for issuance pursuant to Falcon's stock option plan. The Options were granted at an exercise price of CDN$0.20 being the closing share price on the TSX Venture Exchange on 22 February 2017 to the following:

Name	Number of Options granted	Total number of Options held after grant
Anne Flynn	6,000,000	7,000,000

The Options granted have a vesting schedule allowing for 1/3 of the Options to vest immediately with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 22 February 2019. The Options have an expiry date of 21 February 2022.

On 24 March 2017 Falcon announced it was informed by that Sweetpea Petroleum Pty Ltd. is the beneficial owner of 80,625,170 common shares of Falcon, representing 8.69% of Falcon's issued and outstanding shares.

For further details of 2017 updates please refer to the Beetaloo basin, Northern Territory, Australia – Current Activity section of this document.

Generally, the Group's total assets, exploration and evaluation costs, working capital and total shareholders' equity fluctuate in proportion to one another until such time as the Group completes additional financing.

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LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended 31 December 2016, the Group incurred a loss of $3.7 million and had operating cash outflows of $2.4 million and a retained deficit of $386.2 million. For the year ended 31 December 2015, the Group incurred additional losses of $0.2 million, had operating cash outflows of $3.4 million and a retained deficit of $382.6 million.

As at 31 December 2016 the Group had a cash balance including cash and cash on deposit of $10.1 million.

Giving due consideration to the cash requirements of the Group, the Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing this financial information which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Working Capital

Cash and cash on deposit as at 31 December 2016 was $10.1 million, a decrease of $2.6 million from $12.7 million as at 31 December 2015. Working capital as at 31 December 2016 decreased to $9.5 million from working capital of $11.5 million as at 31 December 2015.

The decrease to cash and cash equivalents was the result of net cash used from investing activities of $2.4 million and net cash used in operating activities of $2.4 million.

Accounts Receivable

Current accounts receivable as at 31 December 2016 were $0.2 million, which includes $0.1 million receivable and prepayments of $0.1 million.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at 31 December 2016 were $0.6 million which includes $0.1 million for accounts payable and $0.5 million accrued expenditures.

Capital Expenditures

For the period ended 31 December 2016 the following expenditure commitments were incurred.

Australia - Beetaloo Basin, Northern Territory, Australia

The Group is conducting a nine well drilling programme with its farm-out partners. The details are as follows:

- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns.
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic with a capped expenditure of A$53 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A$48 million, any cost overrun funded by each party in proportion to their working interest.

Given the moratorium on hydraulic fracturing introduced in 2016 Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

South Africa - Karoo Basin, South Africa

On granting of an approved exploration right in South Africa, the Group will be required to make a payment to the South African government of approximately $0.7 million.

Hungary - Makó Trough, Hungary
As at 31 December 2016, the Group's cumulative expenditures for the Production License and Exploration Licenses, including the acquisition, seismic testing, drilling of exploratory wells, and initial testing and completion of wells, was approximately $245 million.

The Group is not planning any independent technical operations in Hungary, and as such no material capital expenditures are expected.

Lease commitments

The Group has entered into lease agreements for office space in:
- Budapest, Hungary which expires in July 2018; and
- Dublin, Ireland, with a break clause exercisable in April 2019.

The Group is obligated to pay the following minimum future rental commitments under non-cancelable operating leases at 31 December 2016 and 31 December 2015 during the following periods:

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
2016	**-**	115
2017	**44**	97
2018	**40**	5
Thereafter	**9**	-
Total	**93**	217

Debt and Equity Capital

The availability of debt and equity capital, and the price at which additional capital could be issued will be dependent upon the success of the Group's exploration activities, and upon the state of the capital markets generally.

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DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at 31 December 2016 and 27 April 2017:

Class of securities	**31 December 2016**	**27 April 2017**
Common shares	921,537,517	927,537,517
Stock options	45,100,000	45,100,000
Hess warrant	10,000,000	10,000,000
Fully diluted common shares	976,637,517	982,637,517

LEGAL MATTERS

The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.

TRANSACTION WITH NON - ARMS LENGTH PARTIES AND RELATED PARTY TRANSACTIONS

The following are the related party transactions which occurred during the period:

Senzus Kft
On 1 January 2013, Senzus Kft. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The agreement was terminated on 28 April 2015. A separate agreement was entered into on 28 April 2015, which expired on 31 March 2016. The contract was renewed with an effective date of 1 April 2016. Senzus Kft. was paid a consultancy fee of $103,440 during the year ended 31 December 2016 (2015: $75,000).

Oakridge Financial Management Inc.
The Group has engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canadian Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc.. The Group has incurred costs of approximately CDN$630 (2015: CDN$945) to Oakridge Financial Management Inc. during the year ended 31 December 2016.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company does not have any off-balance sheet arrangements, other than operating leases (as disclosed on page 32 in this document) and payments with regards overriding royalties as disclosed within section "Overriding Royalty Beetaloo Basin exploration permits" on page 8. The Company has no proposed transactions.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Derivative financial instruments

Derivatives (including embedded derivatives) are initially recognised at fair value of the date a derivative contract is entered into and subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designated any derivatives as hedges as at 31 December 2016 or 31 December 2015.

The Group has the following financial instrument – a warrant. The Group has not entered into contract for "other instruments" during 2016. The Group has no "Other Instruments" as at 31 December 2016 or 31 December 2015.

Warrants

Warrants which do not meet the criteria to be classified as an equity instrument are classified at fair value through the statement of operations and comprehensive loss and are recorded on the statement of financial position at fair value. Transaction costs are recognised in the statement of operations and comprehensive loss as incurred.

The fair value of the warrant and the incentive stock options granted to employees is calculated using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected 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 behavior), expected dividends, and the risk-free interest rate (based on government bonds). A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of incentive stock options that vest.

The composition of the derivative liabilities as at 31 December 2016 and 31 December 2015, and the changes therein for the periods then ended, are as follows:

	Hess Warrant $'000	**Total $'000**
At 1 January 2015	514	514
Derivative gains – outstanding warrants	(79)	(79)
At 31 December 2015	435	435
Derivative gain – outstanding warrant	**(208)**	**(208)**
At 31 December 2016	**227**	**227**

The term of the warrant is as follows:

Warrant issue	**Date of issue**	**Number of common shares issuable under warrant**	**Exercise Price CDN$**	**Proceeds from warrant* CDN$'000**	**Expiry date**
Hess Warrant	13 July 2011	10,000,000	0.19	1,900	13 January 2020
Total		**10,000,000**		**1,900**	

*Proceeds from warrant are subject to the warrant holder exercising their warrant.

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NEW ACCOUNTING PRONOUNCEMENTS

Several new standards and amendments to existing standards and interpretations, which have been issued by the IASB, and which are expected to apply to the Group are not yet effective and have not been applied in preparing these financial statements. Based on current operations the Group does not expect adoption of these new standards and interpretations to have a material impact on the financial statements.

Pronouncement	Issued date	Effective date
IFRS 9 Financial Instruments	July 2014	1 January 2018
IFRS 15 Revenue from Contracts with Customers	May 2014	1 January 2018
IFRS 16 Leases	January 2016	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) *(In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)	September 2014	—*
Annual Improvements 2014-2016	December 2016	1 January 2018
IFRS 2 Classification and measurement of share-based payment transactions	June 2016	1 January 2018
Foreign currency transaction and advance consideration (IFRIC Interpretation 22)	December 2016	1 January 2018

CRITICAL ACCOUNTING ESTIMATES

Preparation of financial statements pursuant to IFRS requires a significant number of judgemental assumptions and estimates to be made. This impacts the income and expenses recognised in the statement of operations and comprehensive loss together with the valuation of the assets and liabilities in the statement of financial position. Such estimates and judgements are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation. It should be noted that the impact of valuation in some assumptions and estimates can have a material impact on the reported results.

The following are key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies:

Critical judgments

(i) Exploration and evaluation assets
The carrying value of exploration and evaluation assets was $39.6 million at 31 December 2016 (2015: $39.6 million). The Group has determined that there are no indicators of impairment present in accordance with IFRS 6 "Exploration for and evaluation of mineral interests" regarding its Australian exploration and evaluation assets.

Management's conclusion on the facts and circumstances regarding its Australian exploration and evaluation assets required judgment based on experience and the expected progress of current exploration and evaluation activities.

The critical facts supporting the judgements are included in detail on pages 9 – 15 of this document.

The Group had previously indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme.

Falcon further notes that pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

The Group does not believe that the moratorium on hydraulic fracturing is an indicator of impairment. The outcome of the inquiry is unknown, with recommendations expected to be made later this year. The joint venture remains fully committed to the project. The work programme and the announcements during 2016 and 2017 also provide evidence that no indicators of impairment are present.

Critical estimates

(ii) Going concern
The consolidated financial statements have been prepared on the going concern basis. In considering the financial position of the Group, the Group has considered the forecasted operating and capital expenditures for the foreseeable future and cash flows relating to its financing. Forecasting those cash flows requires significant judgment when estimating expected operating expenditure, capital expenditure, decommissioning of suspended wells, expected monies to be received from potential farm-in partners and proceeds from share issuances.

(iii) Decommissioning Provision
The decommissioning provision represents the Group's best estimate of the costs involved in the various exploration and production licence areas to return them to their original condition in accordance with the licence terms. These estimates include certain management assumptions with regard to future costs, inflation rates, timing of cash flows and discount rates.

MANAGEMENT'S RESPONSIBILITY FOR MD&A

The information provided in this MD&A is the responsibility of management. In the preparation of this MD&A, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in this MD&A.

The audit committee has reviewed the MD&A with management, and has reported to the Board. The Board has approved the MD&A as presented.

[End of document]