**Falcon Oil & Gas Ltd.**

Annual Information Form
For the Fiscal Year Ended 31 December 2017

**11 April 2018**

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## 1. INTRODUCTION

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**").

References to "**Falcon**" refers to Falcon Oil & Gas Ltd. only.

Unless stated otherwise, the information given herein is as at 31 December 2017.

### Forward-looking statements

This Annual Information Form and the documents incorporated by reference herein contain estimates and assumptions regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may be identified by use of forward-looking words such as "expects" and may include words such as "estimates", "plans", "anticipates", "believes", "opinions", "forecasts", "projections", "guidance", "may", "could", "will", "potential", "intend", "should", "predict" or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realised. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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; 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

Readers of this Annual Information Form and the documents incorporated by reference herein are cautioned not to rely on these forward-looking statements. Falcon is providing this information as of the date of this Annual Information Form and as at the date noted on the documents incorporated by reference herein, respectively, and does not undertake any obligation to update any forward-looking statements contained herein or therein, respectively, as a result of new information, future events or otherwise, except as required by applicable securities laws.

The following table outlines certain forward looking statements contained in this Annual Information Form 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 |
|---|---|---|---|
| 11 | *4. Business Description - General*<br><br>This section of the document contains forward looking statements regarding the strategy Board of Directors of Falcon and the countries it believes support the exploitation of unconventional oil and gas. | The countries the Group operates support the exploitation of unconventional oil and gas. | The countries the Group operates may change their regulatory environment adversely impacting the exploitation of unconventional oil and gas resources. |
| 12 | *Beetaloo Basin, Northern Territory, Australia - Overview*<br><br>"The Beetaloo Basin is …..a relatively underexplored onshore exploration basin…..the area is remote and sparsely populated…..the Board believes the Beetaloo Basin 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. |
| 12-13 | *Beetaloo Basin, Northern Territory, Australia –Transformational Farm out of Beetaloo unconventional acreage*<br><br>This section of the document from contains forward-looking statements pertaining to the work programme, expectations and bringing the project towards commerciality. | The work programme will continue, and the project will be brought towards commerciality. | The risks are (1) Origin determines not to continue the work programme and /or (2) the project is not brought to commerciality. |
| 13-14 | Beetaloo Basin, Northern Territory, Australia – Discoveries and prospectivity<br><br>This section details results of drilling to date and Origin Energy Limited's ("**Origin**") notification of discovery and an initial report on discovery ("**Notification of Discovery**") submission to the Department of Primary Industry and Resources of the Northern Territory ("**DPIR**") on the Amungee NW-1H well along with the contingent gas resource estimate they prepared. | A discovery has been made and a material gas resource estimate 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. |
| 15-19 | *Beetaloo Basin, Northern Territory, Australia – Current Activity*<br><br>This section of the document contains forward looking statements relating to the Group's activities and drilling results to date in the Beetaloo basin. | The Group has assumed that the nine well programme will continue as planned. | The risks are (1) Origin determines not to continue the work programme and /or (2) the project is not brought to commerciality. |
| 15 | *Beetaloo Basin, Northern Territory, Australia – Current Activity*<br><br>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. |
| 17 | *Beetaloo Basin, Northern Territory, Australia – Current Activity - Further information relating to disclosure of resources*<br><br>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 while the Northern Territory government makes its decision following the publication of the Final Report by the inquiry.<br><br>The work programme will continue after the Northern Territory government makes its decision and the project will be brought towards commerciality. | The risks are (1) government decision 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. |

| Page No. | Forward looking statements | Assumptions | Risk factors |
|---|---|---|---|
| 20-21 | *Karoo Basin, South Africa – Technical Regulations & Current Activity*<br><br>*In both sections of the document, it is noted that the* Eastern Cape High Court held that the Minister lacked the authority to promulgate the Regulations for Petroleum Exploration and Production......South Africa remained committed to a shale gas industry and licenses could be issued in 2019.<br><br>The Board now expects that the exploration right over the acreage will be awarded in 2019.<br><br>Note: *In the AIF for year ended 31 December 2016 the Group indicated the* Board expected that the exploration right would be awarded in 2017. | The awarding of the exploration right over the acreage occurs in accordance with the timetable indicated by public officials. | The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence. |

**Documents incorporated by reference**

The following documents, referenced herein, have been filed on the Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com and are incorporated by reference herein:

1. Statement of Reserves Data and Other Oil and Gas Information with an effective date of 31 December 2017 (the "**51-101F1 Report**").
2. Report on Reserves Data prepared by Chapman Petroleum Engineering Ltd. ("**Chapman**") dated 26 March 2018 (the "**51-101F2 Report**").
3. Report of Management and Directors on Reserves Data and Other Information dated 11 April 2018 (the "**51-101F3 Report**").

**Dollar amounts**

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

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

## 2. CORPORATE STRUCTURE

Falcon was incorporated and registered in British Columbia, Canada on 18 January 1980 under the laws of the Province of British Columbia with the name Sanfred Resources Ltd. ("**Sanfred**").

On 21 December 1999, Sanfred consolidated its authorised and issued share capital. On the same date Sanfred changed its name to Falcon Oil & Gas Ltd. On 2 March 2005, Falcon transitioned from the British Columbia Company Act to the new *Business Corporations Act* (British Columbia) ("**BCA**"). Other than the subsidiaries through which Falcon acts, Falcon has no commercial name other than its registered name and does not operate under any other name.

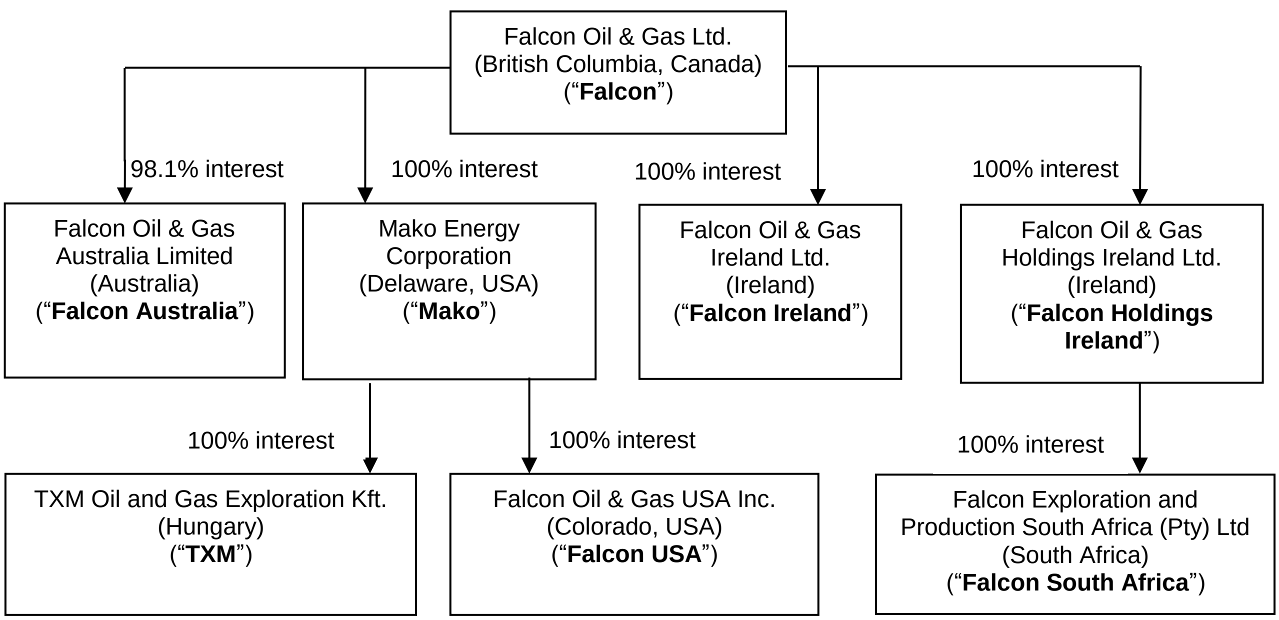
Falcon is a reporting issuer and the principal corporate legislation under which it operates is the BCA and the regulations made thereunder.

Falcon's registered office is at 1200 Waterfront Centre, 200 Burrard Street, Vancouver BC V7X 1T2, Canada. Falcon's head office is at 68 Merrion Square South, Dublin 2, Ireland, telephone number +353 1 676 8702. The Company's corporate website address is www.falconoilandgas.com.

Falcon has no administrative, management or supervisory bodies other than the Board of Directors ("**the Board**"), and the committees as set out in in this document, namely the Audit Committee, the Compensation Committee and the Reserves Committee.

### Organisational structure

The following chart depicts the organisation of the Company as at the date hereof, including its subsidiaries:



**Falcon Australia** was formed in August 2008 to acquire working interests in certain properties in the Beetaloo Basin located in the Northern Territory, Commonwealth of Australia.

**Mako** was incorporated under the laws of the State of Delaware, United States of America on 8 November 2004 for the purpose of acquiring, exploring, and developing oil and gas properties.

**Falcon Ireland** was incorporated on 25 April 2012 and functions as a service company for corporate headquarters.

**Falcon Holdings Ireland** was incorporated on 6 November 2013 and functions as a holding company for the Group's investment in Falcon South Africa.

**TXM** was formed in 2004 to conduct oil and gas exploration and development business in the Republic of Hungary.

**Falcon USA** was formed in August 2008 to hold the Company's working interest in the Buckskin Mesa Project located in the Piceance Basin, Colorado. On 24 February 2009, the Company reassigned its interest in the Buckskin Mesa Project to PetroHunter Energy Corporation ("**PetroHunter**") and the Company was relieved of all obligations related to the project. Falcon USA is now dormant.

**Falcon South Africa** was incorporated on 17 March 2014 to conduct oil and gas exploration and development in South Africa.

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## 3. GENERAL DEVELOPMENT OF THE BUSINESS

The development of the business from 2015 to date is chronicled below:

### Developments of the business during 2015

On **26 January 2015** the Group announced the expiry of the extension granted to its partner, Naftna Industrija Srbije, j.s.c. Novi Sad ("**NIS**"), regarding their obligatory three-well drilling programme in Falcon's Makó Trough Licence in Hungary. As of 31 December 2014, NIS had only drilled and tested two wells. Falcon retains 100% interest in the Makó Trough Licence in Hungary including the deep play.

On **27 January 2015** Falcon announced it granted incentive stock options ("**Options**") to purchase an aggregate of 6 million common shares of Falcon to two directors and an officer under the stock option plan approved at Falcon's annual shareholders meeting held on 10 December 2014. The Options were granted at an exercise price of CDN$0.15 (a 26% premium to the closing share price on 23 January 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 ("**EP**") 98.

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 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 very 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.

On **22 October 2015** it was announced that drilling operations successfully concluded on the Amungee NW-1 well. Results encountered were 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 were encouraging.

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, with payment received in December 2015. Falcon retains a 100% interest in the Makó Trough Licence in Hungary.

On **10 December 2015** it was announced that at the annual and special general meeting held on 9 December 2015 in Dublin, Ireland, each of the directors being, JoAchim Conrad, Philip O'Quigley, Daryl Gilbert, Greg Smith, Dr. György Szabó, Maxim Mayorets and John Craven were re-elected to the Board of Falcon.

On **22 December 2015** Falcon announced that the Board of Directors had elected JoAchim Conrad as Chairman, Mr. Conrad was a non-executive director of the Company since 2008.

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**Developments of the business during 2016**

On **18 January 2016** Falcon announced that on 15 January 2016 it granted options to purchase an aggregate of 38,700,000 common shares of Falcon to recipients, including directors and officers under the stock option plan approved at Falcon's annual shareholders meeting held on 9 December 2015. The Options were granted at an exercise price of CDN$0.11 being the closing share price on the TSX-V on 15 January 2016. The vesting schedule of the Options granted allowed for 1/3 of the Options to vest immediately with an additional 1/3 vesting on each subsequent anniversary until the Options fully vested on 14 January 2018. The Options have an expiry date of 14 January 2021.

On **9 March 2016** Falcon provided an operational update for its operations in Australia, South Africa and Hungary.

In Australia preparations were underway for the Group's 2016 Beetaloo drilling and testing programme, comprising civil construction, the remobilisation of Rig 185 and the drilling of two vertical wells, Beetaloo W-1, a vertical well in EP 117 approximately 85km south of the wells drilled in 2015 and a second vertical well, the location of which was being finalised and the hydraulic stimulation of either well. The 2016 programme also included the re-entry and hydraulic stimulation of Amungee NW-1H in EP98, this well was drilled in November 2015 to a TD of 3,808 metres, including 1,100 metres horizontal section in the "B Shale" interval of the Middle Velkerri formation, 100 metres more than originally planned.

In South Africa the Petroleum Agency of South Africa ("**PASA**") confirmed that it expected to finalise a recommendation to the Minister of Mineral Resources on Falcon's application for a shale gas exploration licence in South Africa's Karoo Basin, by May 2016.

It was further noted that Falcon continued 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.

On **28 April 2016** Falcon provided a technical and operational update for its operations in the Beetaloo Basin, Australia. This included the technical results from the 2015 drilling programme, the objectives for 2016 and the operational schedule for 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 conclusion of drilling operations on Beetaloo W-1 well to a TD of 3,173 metres and the completion of the 11 stage hydraulic stimulation of the horizontal Amungee NW-1H well.

Falcon also noted the statement made by Chief Minister Michael Gunner, 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."

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

On **5 October 2016** Falcon announced the appointment of Ms. Anne Flynn as CFO. Mr. Michael Gallagher stepped down as CFO with effect from 4 October 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.

On **9 December 2016** Falcon was notified that Nicolas Mathys was the beneficial owner of 50,551,600 common shares of Falcon, representing 5.49% of Falcon's then issued and outstanding shares.

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

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**Developments of the business during 2017**

On **15 February 2017** Falcon announced that 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 and that further to the submission to the DPIR, Origin had prepared a contingent resource estimate. Falcon also noted that pending the outcome of the independent scientific inquiry into hydraulic fracturing, Origin had requested a suspension of all drilling operations 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, CFO of Falcon under the stock option plan approved at Falcon's annual shareholders meeting held on 21 June 2016. 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. The Option grant is subject to regulatory approval by the TSX Venture Exchange. 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 |

On **5 May 2017** Falcon announced that Origin had acquired Sasol Petroleum Australia Limited's (a subsidiary of Sasol Limited) ("**Sasol**"), 35% interest in in the Beetaloo joint venture, bringing its interest to 70%. Sasol departed the joint venture to focus its capital investment on its African and North American footprint.

On **30 June 2017** Falcon announced that Dr. György Szabó, a director of Falcon since 2006 had retired from Falcon's board.

On **12 July 2017** Falcon announced that it had been notified of a transfer between two companies acting in concert whereby Renova Assets Limited (the "**Seller**") had transferred its entire 157,083,634 common shares of Falcon representing 16.89% of Falcon's issued and outstanding shares, to Lamesa Holdings S.A. (the "**Purchaser**") for an aggregate consideration of CDN$65,078,745 or CDN$0.4143 per share. The ultimate beneficial owner of the Purchaser is the same person that is a beneficiary under a certain discretionary trust arrangement (pursuant to which the trustee under such trust arrangement holds a legal interest of 90% of all issued and outstanding capital of the Seller and has complete discretion over management of any trust property and distributions in favour of the trust beneficiaries).

On **14 September 2017** Falcon announced the appointment RBC Capital Markets as joint broker, alongside Davy.

On **3 October 2017** Falcon noted the transfer of the warrant to acquire 10,000,000 common shares in the capital of Falcon by Hess Oil and Gas Holdings Inc. ("**Hess**") to Nicolas Mathys. The terms of the warrant remained unchanged, with an exercise price of CDN$0.19 per share and an expiry date of 13 January 2020.

On **16 October 2017** Falcon announced the appointment of Bruce A. Lawrence of Borden Ladner Gervais LLP as Falcon's new Corporate Secretary, with effect from 13 October 2017.

On **7 November 2017** Falcon noted the publication of community update number 25 by the scientific inquiry into hydraulic fracturing in the Northern Territory. The draft Final Report, which was due to be published in early November 2017, would be released mid-December 2017, with the Final Report to be published in March 2018.

On **12 December 2017** Falcon noted the publication of the draft Final Report by the scientific inquiry into hydraulic fracturing. Details of the announcement are included on pages 18.

**Developments of the business during 2018**

On **12 February 2018** Falcon announced that Burlingame Asset Management, LLC now hold 48,772,302 common shares of Falcon, representing 5.24% of Falcon's issued and outstanding shares.

On **21 February 2018** Falcon noted that Origin had presented a technical paper on the potential of the Kyalla Formation in the Beetaloo Sub-basin at the Australia Exploration Geoscience Conference ("**AEGC**") in Sydney. Details are included on page 17-18.

On **27 March 2018** Falcon noted the publication of the Final Report by the scientific inquiry into hydraulic fracturing. Details of the announcement are included on pages 19.

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## 4. BUSINESS DESCRIPTION

### General

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 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 and further interests in Hungary, covering approximately 12.3 million gross acres in total. The carrying value at 31 December 2017 of the Company's interest in Australia is $39.6 million, while the Hungarian asset is nil due to a determination in 2014 that the estimated recoverable amount was insufficient to cover the carrying value of the asset. For the South African interest, costs associated with the technical cooperation permits are expensed as incurred.

Falcon is incorporated in British Columbia, Canada and headquartered in Dublin, Ireland. Falcon's Common Shares are traded on the 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** | **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 prior to the moratorium being introduced in April 2011. 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 and Sasol Petroleum Australia Limited ("Sasol"), collectively known as the "**Farminees**" on 21 August 2014. On completion, Origin was appointed as operator of the exploration permits. On 5 May 2017, it was announced that Origin had acquired Sasol's 35% interest.

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## Beetaloo Basin, Northern Territory, Australia

### *Overview*

Falcon Australia is one of the three registered holders of approximately 4.6 million gross acres (~ 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 developing 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 (~ 35,260 km2) and is a relatively underexplored onshore exploration basin. The area is also remote and sparsely populated. In consideration of these factors, the Board believes the Beetaloo Basin has shale oil and shale gas potential.

### *Exploration Permits*

A summary of Falcon Australia's Beetaloo exploration permits is included on the previous page.

Three of Falcon Australia's then four Beetaloo Permits (EP-76, EP-98 and EP-117) were due for renewal at 31 December 2013. As part of the renewal process, Falcon agreed to relinquish approximately 26% of the three permits which were not considered core to the unconventional play in the Beetaloo Basin by Falcon, Origin and Sasol. The renewal of the three permits was completed on 30 April 2014. Falcon Australia's fourth permit, EP-99 was surrendered as it was also not considered core to the unconventional play**.**

In accordance with local law and regulations, all of Falcon Australia's acreage interests are subject to combined government 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. In addition, Falcon Australia is subject to Commonwealth Government corporation tax of 30%, however where the entity has aggregated annual turnover of less than A$25 million for the financial year they would be considered a base rate entity for Australian tax purposes and would be taxed at a lower rate of 27.5%. Falcon Australia is also subject to 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, it was announced that Falcon Australia had entered an agreement (**"CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% overriding royalty interest ("**ORRI**") relating to its exploration permits. On 17 December 2013, it was announced that Falcon Australia had entered an agreement (**"TOG Agreement"**) with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire 7% (seven eighths) of their 8% private ORRI over the Beetaloo Basin exploration permits. 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 farm–out with Origin and Sasol in August 2014. The Group 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 of $20 million to Falcon Australia and Origin in proportion to their interest, leaving a 1% royalty in private hands.

### *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 between 2014 and 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.

On 5 May 2017, it was announced that Origin had acquired Sasol's 35% interest in the Beetaloo joint venture. The transaction did not impact Falcon's 2014 farm-out agreement detailed above, as Origin assumed 100% of the future costs of the farm-out. Sasol departs the Joint Venture to focus its capital investment on its African and North American footprint.

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. The introduction of a moratorium on hydraulic fracturing has delayed the completion of the nine well programme.

Pending the outcome of the independent scientific inquiry and the government decision, Origin requested a suspension of all drilling operations with the DPIR and were granted a 12-month extension. In March 2018, the inquiry concluded its work with the publication of a Final Report and we now await the Northern Territory government's decision, which is expected shortly.

***Discoveries and Prospectivity***
Work was previously undertaken by a Rio Tinto Group subsidiary company, Sweetpea Petroleum Pty Ltd. ("**Sweetpea**"), Hess and Falcon Australia. Sweetpea drilled the Shenandoah-1 vertical well, which was deepened by Falcon Australia. Hess acquired 3,490 kilometres of 2D seismic data. The seismic database, along with existing well data, provided a solid platform to extrapolate a detailed structural and stratigraphic model for the Beetaloo Basin, concluding the basin was an active petroleum system.

2015 saw the commencement of the work programme with the then Farminees as detailed above in the "*Transformational Farm Out of Beetaloo unconventional acreage*" section. Three wells were drilled in 2015, Kalala S-1 to a total depth ("**TD**") of 2,619 metres, Amungee NW-1 to a TD of 2,611 metres and the first horizontal well, Amungee NW-1H to a TD of 3,808 metres, including a 1,100 metre horizontal section. The results from the in-depth shale evaluation program and petrophysical analysis of the three wells drilled 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.
- Diagnostic fracture injection test 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.

In 2016, the Beetaloo W-1 well was drilled to a TD of 3,173 metres. Preliminary evaluation of this 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
2016 also saw the hydraulic stimulation of the horizontal Amungee NW-1H well. On the **29 September 2016**, Falcon provided the following technical update:

- 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 that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act. Details 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.

The Notification of the Discovery was followed by the **15 February 2017** announcement that 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 that follows.

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***Current Activity***

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 Amungee NW-1H 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 Resource estimate for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117.

*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 follows the initial submission of the notification of discovery and an initial report on discovery in October 2016. The Report provides the following volumetric estimates and recovery / utilisation factor 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 play were the stimulated rock volume recovery factor range, the subsurface utilization factor range and surface utilization factor range.

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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 |
| Original Gas In Place ("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] P50 OGIP associated with the P50 Contingent Resource area
[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 30% 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.

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*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.<br><br>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.<br><br>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. |

On **5 May 2017,** Falcon noted that Origin had announced it had acquired Sasol's 35% interest in in the Beetaloo joint venture, bringing its interest to 70%. Sasol had departed to focus its capital investment on its African and North American footprint. This transaction was subject to the satisfaction of certain conditions, including Government approval. The transaction does not impact Falcon's 2014 farmout agreement as Origin assumed 100% of the future costs of the farmout.

On **21 February 2018**, Falcon announced that Origin had presented a technical paper on the potential of the Kyalla formation in the Beetaloo sub-basin at the AEGC in Sydney. The key conclusions by Origin were the following:

- Reservoir and geomechanical analysis acquired at the Beetaloo W-1 well indicate the presence of two potential Source Rock Reservoir ("**SRR**") intervals; the middle Kyalla SRR and the lower Kyalla SRR.

- Geomechanical properties of the lower Kyalla SRR suggest it has the greater potential and could be conducive to successful hydraulic fracture stimulation.

- Development of the lower Kyalla SRR, if viable, could have significant cost advantages over that of the middle Velkerri SRR due to expected lower drilling costs.

- Mudgas and core analysis indicate the reservoir is likely to be wet gas which could also improve the economics considerably.

- There is also the possibility that a successful lower Kyalla SRR test could lead to a 'stacked' play development with the middle Velkerri SRR. Infrastructure sharing synergies, with a greater portion of centralised infrastructure, could result in significant cost savings and an optimised surface footprint.

- Further appraisal work is required to determine the deliverability of the identified Kyalla SRRs.

*Northern Territory Government Moratorium*
On **14 September 2016**, Falcon noted the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia. Following the moratorium, a scientific inquiry into hydraulic fracturing was established. On **12 December 2017**, Falcon noted the publication of the draft Final Report by the inquiry.

The Inquiry Chair, Justice Rachel Pepper noted the following in Community Update #26:

- The work of the Inquiry is to identify and assess the environmental, social, cultural and economic risks associated with hydraulic fracturing for any onshore shale gas.
- It is not the role of the Inquiry to make a recommendation whether the moratorium on hydraulic fracturing in the Northern Territory should be lifted, that is a matter for Government.
- The overall conclusion is that risk is inherent for an onshore shale gas industry. However, if the recommendations made in the Report are adopted and implemented in full, those risks may be mitigated or reduced - and in many cases eliminated altogether - to acceptable levels having regard to the totality of the evidence.

*Summary of draft Final Report*
The summary of the draft Final Report provided the following conclusion:

"*No industry is completely without risk. And the development of any onshore shale gas industry in the NT [Northern Territory] is no exception. But having considered the most current available scientific literature and data from a wide range of sources, and noting the recent and continuing technological improvements in the extraction of onshore shale gas, the conclusion of this Inquiry is that the challenges and risks associated with any onshore shale gas industry in the NT are manageable by, among other things:*

- *Releasing land that is environmentally, socially and culturally appropriate for use for shale gas development;*
- *The completion of a SREBA [strategic regional environmental and baseline assessment] to gather essential baseline data prior to any onshore shale gas industry being developed;*
- *Implementing an area or regional-based approval system;*
- *Mandating world leading engineering standards for the construction, maintenance and de-commissioning of all onshore shale gas wells and for the extraction of shale gas by hydraulic fracturing;*
- *Implementing new technologies where relevant as soon as they become available;*
- *Requiring the comprehensive monitoring and reporting of all aspects of onshore shale gas operations with real-time public scrutiny of the resulting data;*
- *Ensuring that the regulator is independent insofar as the agency that is responsible for promoting any onshore shale gas resource is not the same agency responsible for its regulation;*
- *Reforming the current regulatory framework governing onshore shale gas development in the NT to strengthen transparency and accountability of all decision-making and to ensure a stringent system of compliance and enforcement; and*
- *Introducing full fee recovery to fund the necessary regulatory reforms and to ensure that strong oversight is maintained.*

*Of course, nothing is guaranteed. And with any new industry it is not uncommon for problems to emerge. However, it is the Panel's opinion that, provided that the recommendations made in this Report are adopted and implemented, not only should the risk of any harm be minimised to an acceptable level, in some instances, it can be avoided altogether.*"

On **27 March 2018**, Falcon noted the publication of the Final Report by the scientific inquiry into hydraulic fracturing.

Justice Rachel Pepper noted the following in Community Update #31:

- It was not the role of the Inquiry to recommend whether the moratorium on hydraulic fracturing in the Northern Territory be lifted, that is a political decision that rests with the Government alone.

- The overall conclusion is that risk is inherent for the onshore shale gas industry, however if all of the recommendations are implemented, the identified risks associated with any onshore shale gas industry can be mitigated or reduced to an acceptable level, and in some cases, the risks can be eliminated.

*Summary of Final Report*

The summary of the Final Report provided the following conclusion:

*"No industry is completely without risk, and the development of any onshore shale gas industry in the NT [Northern Territory] is no exception. But having considered the latest and best-available scientific data from a wide range of sources, and noting the recent and continuing technological improvements in the extraction of onshore shale gas, the conclusion of this Inquiry is that the challenges and risks associated with any onshore shale gas industry in the NT can be appropriately managed by, among other things:*

- *releasing land that is environmentally, socially and culturally appropriate for use for shale gas development;*
- *mandating world-leading engineering standards for the construction, maintenance and de-commissioning of all onshore shale gas wells and for the extraction of shale gas by hydraulic fracturing;*
- *implementing new technologies where relevant as soon as they become available;*
- *requiring the comprehensive monitoring and reporting of all aspects of onshore shale gas operations with real-time public scrutiny of the resulting data;*
- *implementing area (regional) based approval processes;*
- *the completion of a SREBA [strategic regional environmental and baseline assessment] before production to gather essential baseline data prior to any onshore shale gas industry being developed;*
- *insisting on a standalone comprehensive SIA [social impact assessment] for each onshore shale gas project;*
- *ensuring that traditional Aboriginal owners and Aboriginal communities are properly and comprehensively consulted about all aspects (positive and negative) of any onshore shale gas project on or affecting their country;*
- *ensuring that the regulator is truly independent and that laws protecting the environment are properly enforced with sufficiently stringent sanctions for non-compliance;*
- *ensuring greater access to justice;*
- *reforming the current regulatory framework governing onshore shale gas development in the NT to strengthen transparency and accountability of all decision-making;*
- *introducing full fee recovery to fund the necessary regulatory reforms and to ensure that strong oversight is maintained; and*
- *ensuring that all of the recommendations contained in this Report are implemented in full.*

*Of course, nothing is guaranteed. And with any new industry, it is not uncommon for problems to emerge. However, it is the Panel's opinion that, provided that all of the recommendations made in this Report are adopted and implemented in their entirety, not only should the risks associated with an onshore shale gas industry be minimised to an acceptable level, in some instances, they can be avoided altogether."*

*Suspension of Drilling Operations*

Following 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 requested a suspension of all drilling operations with the DPIR and were granted a 12 month extension.

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 has delayed the completion of the nine well programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and we now await the Northern Territory government's decision, which is expected shortly.

## Karoo Basin, South Africa

### *Overview*

The Company holds a TCP covering an area of approximately 7.5 million acres (~ 30,327 km$^2$), in the southwest Karoo Basin, South Africa. The TCP granted Falcon exclusive rights to apply for an exploration right over the underlying acreage, which they duly did in August 2010, submitting an application to the Petroleum Agency of South Africa ("**PASA**"). The Company also submitted an environmental management plan in January 2011 which was updated at the request of the PASA and submitted on 27 February 2015.

Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting in very limited modern hydrocarbon exploration onshore in South Africa.

### *Technical Regulations*

*Regulations for Petroleum Exploration and Production*

On 3 June 2015, the Minister of Mineral Resources (the "**Minister**") published the Regulations for Petroleum Exploration and Production, which prescribe various technical and environmental standards for onshore hydraulic fracturing. The promulgation of the regulations means exploration companies can conduct hydraulic fracturing if all necessary statutory approvals are in place.

On 18 October 2017, the Eastern Cape High Court held that the Minister lacked the authority to promulgate the Regulations for Petroleum Exploration and Production. The Minister indicated they would review the outcome of the High Court ruling and would decide on how to proceed. He also signaled South Africa remained committed to a shale gas industry and licenses could be issued in 2019.

*Strategic Environmental Assessment ("**SEA**")*

In May 2015, the South African government formally launched a 24-month 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'.

### *Fiscal Terms*

The Mineral and Petroleum Resources Development Act, 28 of 2002 empowers the Minister of Mineral Resources, when granting an exploration right, to direct the applicant to sell an interest to a Historically Disadvantaged South African ("**HDSA**"). The amount of the interest is, derived from the Liquid Fuels Charter, a policy instrument governing participation by HDSAs in the petroleum industry. It is a statutory condition for the grant of a production right that an HDSA holds a 10% interest in the operation. How HDSAs earn or pay for the 10% interest is not legislated, meaning applicants are free to negotiate terms with prospective HDSAs subject to the "unofficial approval" of the PASA.

State participation in exploration and production rights are not addressed in legislation. 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. The State is not required to pay any consideration for its interest or contribute to past costs but must contribute pro rata to 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**") amending the Mineral and Petroleum Resources Development Act (28 of 2002). Among the proposed changes, it provides the state with a free carried interest of 20% in all new gas and oil exploration and production ventures. In addition, it introduced a new clause entitling it to further participation in the form of an acquisition at an agreed price or production sharing agreements with no percentage limit on this entitlement stated in the amendments. 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. The President of South Africa referred the MPRDA Bill back to the National Assembly for reconsideration in January 2015. On 4 November 2016 an updated MPRDA Bill was presented to a select committee of Parliament by the South African Department of Mineral Resources. Provincial meetings and public hearings relating to the updated MPRDA Bill commenced on 16 December 2016 and are ongoing.

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***

The overall Karoo Basin is approximately 173 million acres (~ 700,000 $km^2$), located in central and southern South Africa, containing thick, organic rich shales such as the Permian Whitehill formation. The Karoo describes a geological period lasting some 120 million years, covering the late Paleozoic to early Mesozoic interval periods. Rocks were deposited in a large regional basin, resulting in the build-up of extensive deposits. Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting, however in an independent report dated June 2013, the U.S. Energy Information Administration ("**EIA**") estimated there are 390 trillion cubic feet ("**Tcf**") of technically recoverable resources, ranking it fifth in the world after China, USA, Argentina and Mexico for shale gas potential. The Permian Ecca group contains three potential shales identified as having potential for shale gas, with the Whitehall Formation, in particular, considered ubiquitous, having a high organic content and deemed thermally mature for gas.

***Cooperation agreement***

In December 2012, Falcon entered a cooperation agreement with Chevron Business Development South Africa Limited ("**Chevron**") to jointly seek unconventional exploration opportunities and obtain exploration rights in the Karoo Basin over a period of five years, subject to the parties mutually agreeing participation terms applicable to each right. As part of the agreement, Chevron made a cash payment to Falcon of $1 million in February 2013, as a contribution to past costs. The cooperation agreement terminated in December 2017 at the end of the five-year exclusivity period.

***Current activity***

There have been no further updates since the PASA confirmed in Q1 2016 that it expected to finalise a recommendation to the Minister on Falcon's application for an exploration licence.

As noted under the Technical Regulations heading above, in October 2017, the Eastern Cape High Court held that the Minister lacked the authority to promulgate the Regulations for Petroleum Exploration and Production. The Minister indicated they would review the outcome of the High Court ruling and would decide on how to proceed. He also signaled South Africa remained committed to a shale gas industry and licenses could be issued in 2019.

The Board now expects that the exploration right over the acreage will be awarded in 2019.

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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. 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.

### *Makó Production Licence*
The Makó Production Licence was granted by the Hungarian Mining Authority over a gas exploration project in the Makó Trough, covering approximately 245,775 acres (~ 1,000 km$^2$), located in south-eastern Hungary. It is located approximately ten kilometres to the east of the largest producing field in Hungary, the Algyő field, owned and operated by the MOL Group. The area is transected by existing gas pipelines and infrastructure, including a 12-kilometre gas pipeline built by Falcon, offering transport and potential access to local markets and larger distribution centres for international markets.

Under the terms of the 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 to Prospect Resources Inc., the previous owners of the acreage.

Up to 31 December 2017 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:
- 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 between 2,300 and 3,500 metres deep. While wells have been drilled through the Algyő Play and encountered gas shows, none tested the shallow play at an optimal location, as they targeted the Deep Makó Trough. Multiple Algyő prospects have been 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 NIS, 56% owned by Gazprom Group, to target the Algyő Play, with NIS making a cash payment of $1.5 million to Falcon.

Only two of the three wells were drilled. Kútvölgy-1 reached TD of 3,305 metres, with the well 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 and the well was plugged and abandoned.

Well testing on Besa-D-1, the second well, were completed in November 2014. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated well production did not meet commercial rates and the well was plugged and abandoned. In December 2015, Falcon signed a termination agreement with NIS, with NIS paying $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. 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.

### *Current activity*
Falcon has 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 2017, Falcon earned $7,000 (2016: $6,000) in revenue from its Alberta, 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 further exploration or development of these wells, nor are further material revenue and costs expected.

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**Employees**

As at 31 December 2017 and the date of this document, the Company had the following number of employees (including Executive Directors):

| | 31 December 2017 | | | Date of this document | | |
|---|---|---|---|---|---|---|
| **Job Function** | **Budapest, Hungary** | **Dublin, Ireland** | **Total** | **Budapest, Hungary** | **Dublin, Ireland** | **Total** |
| Management & Administration | - | 3 | 3 | - | 3 | 3 |
| Technical | 1 | - | 1 | 1 | - | 1 |
| **Total** | **1** | **3** | **4** | **1** | **3** | **4** |

**Special skill & knowledge**

The Company's ability to complete drilling and exploration is dependent on the availability of well-trained, experienced crews to operate its field equipment and qualified management. The Group believes that its strategic arrangement with other oil and gas exploration companies aids the Company in ensuring that it has the skills and knowledge available to assist the drilling, testing and evaluation of the Company's resources.

**Competitive conditions**

The oil and gas industry in Australia, Hungary and South Africa will continue to be competitive. Most contracts will be awarded on the basis of competitive bids, resulting in price competition.

**Dependence on customers & suppliers**

The Company is not dependent upon a single or few customers or suppliers for revenues or its operations.

**Changes to contracts**

There is no aspect of the Company's business in which changes to contracts would reasonably be expected to affect the Company in the current financial year.

**Environmental protection and policies**

The Company is subject to various federal, state, territorial, provincial and local environmental laws and regulations enacted in most jurisdictions in which it operates, which primarily govern the manufacture, processing, importation, transportation, handlings and disposal of certain materials used in operations, as well as limits on emissions into the air and discharges into surface and sub-surface waters. The Company adheres to all such laws and regulations. The Company may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

The introduction of a mortarium on hydraulic fracturing has resulted in a delay to the nine well drilling programme in the Beetaloo Basin, Australia. The joint venture has worked with the DPIR to understand their moratorium policy and has fully cooperated with the inquiry panel. In March 2018, the inquiry concluded its work with the publication of a Final Report and we now await the Northern Territory government's decision, which is expected shortly.

To date other environmental protection requirements have not had a significant financial or operational effect on the Company's capital expenditures, earnings or competitive position, nor are they currently anticipated in the future.

During 2017 Company operations complied in all material respects with applicable corporate standards and environmental regulations and there were no material notices of violations, fines or convictions relating to environmental matters at any of the Company's operations.

The Group believes that it is in substantial compliance with all material current government controls and regulations at each of its properties.

See also *"General Development of the Business"* and *"Risk Factors"*.

**Foreign operations**
The Group is dependent on its foreign operations. The Group's principal interests are in Australia, South Africa and Hungary. All costs capitalised at 31 December 2017 for exploration and evaluation assets relate to Australia.

**Companies with oil and gas activities**

The 51-101F1 Report, the 51-101F2 Report and the 51-101F3 Report are incorporated by reference herein.

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## RISKS FACTORS

The risk factors identified below, are those the Board believes are material to the Group but these risks may not be the only risks faced by the Group. Additional risks, including those the Board is unaware of or those that are currently deemed immaterial, may also result in decreased income, increased expenses or a decline in the value of Common Shares.

### (i) RISKS RELATING TO THE GROUP AND ITS BUSINESS

***The Group may be unable to get the necessary approvals to operate its business***
The Group may be unable to obtain necessary approvals from one or more Australian, South African or Hungarian government agency, surface owner or other third party, for: surface use for seismic surveys; surface use for drilling activities; surface use for gathering lines, pipelines, or surface equipment; or commencing one or more wells.

*Australia*
Australian government agencies have discretion in interpreting various laws, regulations and policies, which govern operations in the Beetaloo basin. Actions by Australian government agencies may affect the Company's operations including obtaining necessary approvals, land access, sovereign risk, regulatory risk, taxation and royalties which may be payable on the proceeds of the sale of a successful exploration.

Exploration permit renewals and approval of contractual arrangements relating to them are also matters of governmental discretion, with no guarantees.

In Australia, Aboriginal native title to land ("**Native Title**") has survived the Crown's acquisition of sovereignty. The Native Title Act 1993 (Commonwealth) and the complementary state Native Title legislation, regulates the recognition and protection of Native Title in Australia, setting procedures to be followed regarding "future acts", including the grant of petroleum tenements. The Company must obtain clearances, consents and approvals relating to Native Title regarding the Beetaloo exploration permits. Access may be restricted or subject to negotiated arrangements (for example, compensation and access arrangements) in respect of areas subject to Native Title. If requisite approvals and consents are not obtained, the Group's business, prospects, financial condition and operational results may be adversely impacted.

Permit renewals: Permit renewal applications must be submitted to the Minister of the Northern Territory Government, Australia, no later than 3 months but no earlier than 6 months before the permit's expiration. The Minister may not renew the permit more than twice. A renewal application must include a comprehensive report of the previous work commitment program, findings and results. It must also include the proposed work program towards development of each of the 5 year renewal terms and a report on the future strategic exploration plan. 50% of the acreage must be relinquished upon renewal. An exemption from relinquishment may be granted (for 12 months) if the titleholder provides significant reason and evidence as to why they should retain the acreage for an additional year after renewal. Before the exemption period ends, the permittee may apply for an extension of the exemption and, if the Minister is satisfied in considering certain criteria, may extend the exemption for a period not exceeding 12 months. If permit renewals or relinquishment exemptions are not granted, there may be a material adverse effect on the Group's business, prospects, financial condition and results of operations.

*Moratorium on hydraulic fracturing*: In September 2016, the then newly elected government in the Northern Territory introduced a moratorium on hydraulic fracturing. They subsequently established an independent scientific inquiry, appointing a panel to investigate the environmental, social and economic risks and impacts of hydraulic fracturing of onshore unconventional gas reservoirs and associated activities in the Northern Territory. The joint venture cooperated fully with the scientific inquiry. In March 2018, the inquiry concluded its work with the publication of a Final Report and we now await the Northern Territory government's decision, which is expected shortly.

*South Africa*
The Company's application for an exploration right over the TCP acreage had been delayed due to a moratorium on shale gas exploration introduced in April 2011 by the DMR. 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 gazetted regulations allow hydraulic fracturing if all necessary statutory approvals are in place. On 18 October 2017, the Eastern Cape High Court held that the Minister lacked the authority to promulgate the Regulations for Petroleum Exploration and Production. The Minister of Mineral Resources indicated they would review the outcome of the High Court ruling and would decide on how to proceed. He also signaled South Africa remained committed to a shale gas industry and licenses could be issued in 2019.

Notwithstanding the Regulations, Falcon's exploration right application may not result in the award of an exploration licence. This eventuality could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

On 12 March 2014, South Africa's parliament approved the MPRDA Bill which amends the Mineral and Petroleum Resources Development Act (28 of 2002), South Africa's main petroleum law. 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. The government also 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 of Mineral Resources requested the President to delay the signature of the MPRDA Bill in order to investigate the matter. In January 2015, the President referred the MPRDA Bill back to the National Assembly for reconsideration. The terms of the reconsidered bill might impact the Group's ability to successfully farm-out its South African interest which may have a material adverse effect on the Group's business, prospects, financial condition and results of operations. 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.

*Hungary*
Hungarian government agencies have discretion in interpreting various laws, regulations, and policies governing operations under the Makó Production Licence. The Group must enter agreements with private surface owners to obtain access and for surface facility locations. There is a relatively short history of government agencies' handling and interpreting laws including regulations and policies relating to those laws since the mining laws governing oil and gas operations were only enacted in Hungary in 1993 (laws amended since). This short history provides little precedent or certainty allowing the Group to predict whether such agencies will act favourably toward the Group.

Neither the Makó Production Licence nor Hungarian mining laws grant reasonable use of the surface covered by the Makó Production Licence geographical area. Instead, the licencee must obtain rights of way from surface owners, including private landowners, for access and other purposes. The land owner must ensure mining operators make observations and measurements, lay cables, display adequate signage and take any other actions necessary. If the land owner and licencee cannot mutually agree on operations, a licencee may request and pay for an easement from the Hungarian government. The Hungarian government has discretion to interpret various requirements for the issuance of drilling permits, and there is no assurance the Group will meet all requirements. An inability to meet any requirement could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***A decision by Origin, following the completion of the initial five well drilling programme in the Beetaloo basin, not to participate in any further drilling operations, could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.***
Under the terms of the Agreements, Falcon Australia is carried in a nine well exploration and appraisal programme with all costs covered for the first five wells. The next 4 wells have a capped expenditure with overruns funded by each in proportion to their working interest. Falcon retains a 30% interest in the exploration permits. If Origin decide to reduce or surrender their interest in the Beetaloo basin permits and not complete the agreed farm-out and if the Group was unable to secure a new farm-in or joint venture partner for the development of the Beetaloo basin, its ability to develop and realise its investment in the asset could be significantly curtailed. This could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***Should Falcon fail to find a farm-in or joint venture partner to farm into Falcon's Karoo exploration licence, if awarded; this could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.***
In December 2012, Falcon entered a cooperation agreement with Chevron to jointly seek unconventional exploration opportunities in the Karoo over a five-year period. The cooperation agreement terminated in December 2017 at the end of the five-year exclusivity period. If the exploration license was to be awarded, and if the Group were unable to secure participation by a new farm-in or joint venture partner for the development of the Karoo acreage, its ability to develop and realise its investment in the asset could be significantly curtailed. This could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***There is no guarantee that the Company has or will continue to have good title to assets.***
Although title reviews have been and will continue to be performed according to standard industry practice prior to the acquisition of an oil and gas asset or rights to acquire leases in prospects/assets or the commencement of drilling wells, such reviews do not guarantee or preclude that an unidentified or latent defect in the chain of title will not exist, or that a third party claim will not arise that burdens, diminishes or defeats the claim of the Company. This could impact the Company's ability to realise its investment in a particular asset and could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group cannot be certain that it will continue to meet all requirements to maintain its permits and licences***
Falcon Australia and its partner must perform work programmes to maintain the Beetaloo Exploration Permits. Hungarian mining law requires that the Group file annual plans of development ("**Plans**") relating to the Makó Production Licence. To the extent that the Group cannot fulfil the requirements, it may have to request extensions for filing a Plan/completing a work programme

or it may be at risk of losing rights under the Makó Production Licence or the Beetaloo exploration permits. The Group may also disagree with the government's interpretation of the legal requirements, resulting in legal proceedings, which could delay exploration and development of the Makó Production Licence or the Beetaloo basin. Failure to fulfil commitments within the required timeframes, or to successfully negotiate extensions to carry out work plan commitments, could result in the Group losing those relevant interests and the associated resource potential, and also restrict the ability to obtain new licences in the relevant jurisdictions. There is no guarantee or assurance that rights can be extended or that new rights can be obtained to replace rights expiring. As licence terms and commitments are typically set by governments there may be unexpected and significant changes to licence terms and commitments. Any of these could significantly impact the value of those licences to the Group, with a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group is exposed to general business risks associated with its joint venture and other partners, in addition to their ability to perform their contractual obligations.***
Like other companies its size, the development of the Group's business is substantially reliant on forming strategic relationships with larger oil and gas companies. The Group has sought and will continue to seek to involve the financial resources and the technical expertise of farm-out or joint venture partners to explore and develop its interests. These relationships involve surrendering certain economic and operational rights to such partners. As a result, the Company's return on assets operated by others depends upon factors which may be outside the Group's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

The Group will be exposed to the general risks associated with the businesses, operations and financial condition of its joint venture and other partners including, the risks of bankruptcy, insolvency, management changes, adverse change of control and natural disasters. The Group may have disputes with these parties, including disputes regarding the quality and/or timelines of work performed. A failure by one or more of the Group's partners to discharge the agreed-upon commitments on a timely basis may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***The Group may have substantial capital requirements that, if not met, may hinder its growth and operations.***
The Group's future growth depends on its ability and that of its partners to invest significant capital expenditures for the exploration and development of oil and gas interests. Future cash flows and the availability of financing will be subject to factors, such as:

- the success of the Group's current and future exploration and development programme in Australia, South Africa and Hungary;
- success in locating new resources; and
- prevailing oil and gas prices.

Additional financing sources may be required to fund future developmental and exploratory drilling. Issuing equity securities to satisfy the Group's financial requirements could cause substantial dilution to its existing shareholders. Financing may be unavailable or the Group may be unable to obtain necessary financing on acceptable terms. If sufficient capital resources are unavailable, the Group may be forced to curtail activities or sell interests in an untimely manner or on unfavourable terms, havng a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group may be unable to identify liabilities associated with its licences causing the Group to incur losses.***
While the Board and management believes it has reviewed and evaluated its assets in Australia and Hungary in a manner consistent with industry practices, such review and evaluation might not necessarily reveal all existing or potential problems. Inspections on all wells may not always be performed, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken.

***Resource estimates depend on many assumptions that may be inconclusive, subject to varying interpretations, or inaccurate.***
Although the Board and management believes that the commissioned independent Competent Person Report carried out by RPS Energy titled "Evaluation of the Hydrocarbon Resource Potential Pertaining to Certain Acreage Interests in the Beetaloo Basin, Onshore Australia and Makó Trough, Onshore Hungary" (the "**RPS 2013 Report**") was in accordance with industry standards, the Company cannot be sure that the actual results will be as estimated. The Competent Person Report represents RPS Energy's best professional judgement and should not be considered a guarantee or prediction of results.

On 15 February 2017, Falcon announced Origin had submitted a Discovery Evaluation Report to the Northern Territory Government. This provided volumetric estimates and recovery / utilisation factors for the B Shale member of the Middle Velkerri Formation within permits EP76, EP98 and EP117. 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.

Origin also prepared a contingent gas resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data. The risks and uncertainties with the recovery of the resources include the lifting of the moratorium on hydraulic fracture stimulation, completing longer duration production testing above the 57 days conducted on Amungee NW-1H, reducing well costs with the scale of activity, establishing gas sale agreements and building infrastructure to connect the resource to market. Currently this project is based on a conceptual study, the economic status has yet to be determined. The estimated contingent resources will continue to be assessed as additional appraisal wells are drilled and tested 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. It is possible further drilling and production testing may not yield positive results.

***Drilling for and producing oil and gas are high-risk activities with many uncertainties that could adversely affect the Group's business, prospects, financial condition or results of operations.***
The Group's future success depends primarily on the outcome of its exploration activities. These activities are subject to risks beyond the Group's control, including not finding commercially productive oil or gas reservoirs. Exploration and development of oil and gas from unconventional resources relies on innovative and expensive techniques and often involves exploration in areas where no proven reserves exist. The Group's decisions to purchase, explore, develop or otherwise exploit its interests depends on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The cost of drilling, completing and operating wells is often uncertain before drilling commences, with overruns in budgeted expenditures common risk, making a project uneconomical. Many factors may curtail, delay or prevent drilling operations, including:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- pipeline and processing interruptions or unavailability;
- adverse weather conditions;
- lack of market demand for oil and gas;
- delays imposed by or resulting from compliance with environmental and other regulatory requirements;
- shortage of or delays in the availability of drilling rigs and the delivery of equipment; or
- reductions in oil and gas prices.

The Group's future drilling activities may be unsuccessful, and drilling success rates could decline. The Group could incur losses drilling unproductive wells. Shut-in wells, curtailed production and other production interruptions may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***Market conditions or operational impediments may hinder the Group's access to oil and gas markets or delay production in the future.***
The marketability of future production from the Group's interests will depend upon the availability, proximity and capacity of pipelines, oil and gas gathering systems and processing facilities, with dependence heightened where infrastructure is less developed. The Group may be required to shut-in wells, at least temporarily, due to the inadequacy or unavailability of transportation facilities or the lack of market demand, resulting in the Group being unable to realise revenue until arrangements were made to deliver production to market. The Group's ability to produce and market oil and gas is affected and potentially harmed by:

- the lack of pipeline transmission facilities or carrying capacity;
- the proximity and capacity of processing equipment;
- the availability of open access transportation infrastructure;
- government regulation of oil and gas production including environmental protection, royalties;
- allowable production, pricing, importing and exporting of oil and gas;
- government transportation, tax and energy policies;
- changes in supply and demand for oil and gas; and
- general economic conditions.

Changes in such factors may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***Shortages of rigs, equipment, supplies and personnel could delay or adversely affect the Group's cost of operations or its ability to operate according to its business plans.***
Shortages of drilling and completion rigs, field equipment and qualified personnel can occur, resulting in sharp increases in costs. The demand for wage rates of qualified drilling rig crews generally rise in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or

qualified personnel could delay, restrict or curtail the Group's exploration and development operations, which may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***The loss of the Group's key management and Directors or its inability to attract and retain experienced technical personnel could adversely affect the Group's ability to operate.***
The Group depends largely on the efforts and continued employment of the it's management team and board members. The loss of such services could adversely affect the Group's business operations. If the Group cannot retain key personnel or attract additional experienced personnel, its ability to compete in the geographic regions it conducts operations maybe harmed and may materially and adversely impact the it's business, prospects, financial condition and results of operations.

***The Group is subject to complex laws and regulations, including environmental regulations, which can have a material adverse effect on the cost, manner or feasibility of doing business.***
Exploration for and exploitation, production and sale of oil and gas in Australia, South Africa and Hungary are subject to extensive national and local laws and regulations, including complex tax laws, environmental laws and regulations and requires permits and approvals from governmental agencies. If permits are not issued or unfavourable restrictions or conditions are imposed on the Group, such as the current moratorium on hydraulic fracture stimulation in the Northern Territory, Australia, operations may be restricted. Failure to comply with laws and regulations, including the requirements of permits, may result in suspension or termination of operations and potential penalties. Compliance costs may be significant. Laws and regulations could also change, substantially increasing the Group's costs. The Group cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations will not materially and adversely impact its business, prospects, financial position and operations. Regarding the moratorium in the Northern Territory, Australia, the Group cannot be certain that the government will permit hydraulic fracture stimulation in the future or their conclusions will impose such onerous regulations that it will make future exploration cost prohibitive.

***The Group does not insure against all potential operating risks. It might incur substantial losses and be subject to substantial liability claims of its oil and gas operations.***
The Group does not insure against all risks. It maintains insurance against various losses and liabilities arising from operations in accordance with customary industry practices and in amounts that the Board believes to be prudent. Losses and liabilities arising from uninsured and underinsured events or in amounts exceeding existing insurance coverage could have a material adverse effect on the Group's business, prospects, financial condition or results of operations. The Group's oil and gas exploration and production activities will be subject to hazards and risks associated with the drilling for, producing and transporting of oil and gas, and any of these risks can cause substantial losses resulting from:

- environmental hazards, such as uncontrollable flows of oil, gas, brine, well fluids, toxic gas or other;
- pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- fires and explosions;
- personal injuries and death;
- regulatory investigations and penalties; and
- natural disasters.

Any of these risks could have a material adverse effect on the Group's ability to conduct operations or result in substantial losses. The Group may elect not to obtain insurance if it considers that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, this may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

**(ii) RISKS RELATING TO THE GROUP'S INDUSTRY**

***Competition in the oil and gas industry is intense and many of the Group's competitors have greater financial, technological and other resources than the Group does, which may adversely affect its ability to compete.***
The Group operates in the highly competitive areas of oil and gas exploration, development and acquisition with other companies doing business in Australia, South Africa and Hungary. The Group faces intense competition from both major and other independent oil and gas companies in the locations where the Group operates. Many of the Group's competitors have substantially greater financial, managerial, technological and other resources. These companies might be able to pay more for exploratory prospects or assets than the Group's financial resources permit or the Group is willing to pay, leaving the Group at a competitive disadvantage. Competitors may also enjoy technological advantages and may be able to implement new technologies more rapidly. The Group's ability to explore for oil and gas prospects and to acquire additional assets in the future depends upon its ability to successfully conduct operations, implement advanced technologies, evaluate and select suitable assets and consummate transactions in this highly competitive environment. This may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group has been an early entrant into new or emerging shale plays. As a result, its expectations regarding future drilling results are uncertain, and the value of its undeveloped acreage will decline if future drilling is unsuccessful.***
The Group has been an early entrant into new or emerging shale plays in the areas it operates, particularly in Australia and South Africa. While the Group considers its early entry provides certain competitive advantages, including a wider selection of available concessions to choose from, there is no guarantee such competitive advantages can be maintained in the future as competitors, many of whom are larger than in size and operation, enter these regions. Additionally, the Group's prospects and expectations regarding future drilling results in these emerging shale plays are more uncertain than they would be in areas developed and producing substantial quantities of oil or gas already. Since new or emerging shale plays have limited or no production history, the Group is unable to use past drilling results in those areas to help predict future drilling results. As a result, the Group's risk on costs of drilling, completing and operating wells in these areas may be higher and the value of the Group's undeveloped acreage will decline if future drilling results are unsuccessful, all of which may have a material adverse impact the Group's business, prospects, financial condition and results of operations.

***The environmental implications of certain technologies used in shale gas exploration activities are under scrutiny.***
The environmental implications of the Group's activities exploring for shale gas utilising drilling and completion techniques, such as horizontal drilling and hydraulic fracturing are subject to significant controversy and public debate. Given technologies are rapidly developing, their environmental implications may not be fully understood, and research into their effects is still ongoing. Speculation surrounds the possible effects of hydraulic fracturing on water aquifers (due to either the chemicals used in fracking fluids or gases released from the shales), contribution to seismic activity and disruption to local ecosystems amongst other things. The controversy surrounding the environmental implications of shale gas exploration has led to opposition from significant sections of the public as well as certain legislative and regulatory initiatives aimed at restricting these activities. On 14 September 2016 the Northern Territory Government introduced a moratorium on hydraulic fracturing, the Group cannot be certain that the government will permit hydraulic fracture stimulation in the future or impose such onerous regulations that it will make future exploration cost prohibitive. In South Africa, a moratorium on shale gas exploration as imposed in February 2011 but was subsequently lifted in 2015 with the introduction of gazetted regulations. Similar initiatives have been introduced in other European countries and in various regions of Canada and the United States. Any further restrictions on these activities in Australian and South Africa, or the introduction of such restrictions in other locations in which the Group operates (including a prohibition on hydraulic fracture stimulation), would make shale gas exploration and production unviable due to a lack of presently-existing alternative technologies, could prevent the Group from being able to profitably develop its interests.

Furthermore, if any Group activities were found to have caused environmental damage, it could be subject to significant liabilities and reputational damage. Even if no environmental damage were tied directly to the Group's activities, to the extent operations by other companies in the shale gas industry were found to have caused environmental damage or to the extent further research provides evidence of negative environmental implications of fracking or other aspects of shale gas exploration, public and political opposition to shale gas exploration may be further intensified and the Group's business could come under increasing legal and regulatory restrictions, all of which may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***The oil and gas industry is subject to extensive environmental regulation, uncertainties related to climate change with that could adversely affect the Group's business, prospects, financial condition or results of operations.***
The Group faces a variety of uncertainties related to climate change. The oil and gas industry is subject to extensive environmental regulation in the countries it operates, ranging from potential impacts from emissions restrictions, carbon taxes and other government policy initiatives, to changes in weather patterns that may affect operations. The direct or indirect costs of changing regulations may have a material adverse effect on the Group's business, financial condition, prospects and results of operations. Although the Group is not a large emitter of greenhouse gases, the future implementation or modification of greenhouse gases regulations, could have a material impact on the Group. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Group and its operations.

***A substantial or extended decline in oil and gas prices may adversely impact the Group's business, prospects, financial condition and results of operations.***
The Group's future revenues, operating results, rate of growth and ability to execute farm-outs of the Group's acreage are substantially dependent upon the prevailing price and demand for oil and gas. Declines in price and demand for oil and gas may adversely affect the Group's business, prospects, financial condition and results of operations. Lower oil and gas prices may also reduce the oil and gas the Group can produce economically. Lower oil and gas prices may indirectly affect a potential farm-in partner's decision to farm-in to the Group's acreage due to their own cash constraints. Historically, oil and gas prices and markets have been volatile and will likely continue as such in the future. Oil and gas prices are subject to wide fluctuations in response to relatively minor changes in the supply and demand for oil and gas, market uncertainty and a variety of additional factors beyond the Group's control. Factors that could cause this fluctuation are:

- change in global supply and demand for oil and gas;
- levels of production and other activities of the OPEC, and other oil and gas producing nations;
- weather conditions;

- the availability of transportation infrastructure;
- market expectations about future prices;
- the level of global oil and gas exploration,
- production activity and inventories; the overall level of energy demand;
- the effect of worldwide environmental and/or energy conservation measures;
- currency exchange rates;
- government regulations and taxes;
- the overall economic environment;
- political conditions, including embargoes, in or affecting other oil producing activity; and
- the price and availability of alternative fuels.

A substantial or extended decline in oil or gas prices may have a material adverse impact the Group's business, prospects, financial condition and results of operations.

***Political instability or fundamental changes in the leadership or structure of governments in the jurisdictions the Group operates could materially and negatively impact the Group's business, prospects, financial condition and results of operations.***
Political and economic upheavals may affect the Group's interests. While jurisdictions the Group operates in welcome foreign investment and are generally stable, there is no assurance the current economic and political situation in these jurisdictions will not change significantly in the future.

Local, regional and world events could result in changes to the oil and gas, mining, tax or foreign investment laws, or revisions to government policies in a manner that renders the Group's current and future interests uneconomical. These events could have a material adverse effect on the Group's business, prospects, financial condition and results of operations. There is also the risk of resource nationalisation or the imposition of restrictions and penalties on foreign-owned entities which may materially impact the Group's business, prospects, financial condition and results of operations.

Should one or more of these risks materialise, or should the Group's underlying assumptions prove incorrect, the Group's actual results may materially differ from the Group's current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause the Group's actual results to materially differ from such forward-looking statements.

**(iii) RISKS RELATING TO THE COMMON SHARES**

***The Group's share price might be affected by matters not related to the Group's own operating performance for reasons that include the following:***

- general political and economic conditions in Australia, South Africa, Hungary, and globally;
- industry conditions, including fluctuations in the price of oil and gas;
- governmental regulation of the oil and gas industry, including environmental regulation and introduction of moratoriums;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and gas operations;
- geological, technical, drilling and processing problems;
- competition for, among other things, capital, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- investor perception of the oil and gas industry in general and of unconventional oil and gas exploration, in particular;
    - limited trading volume of the Common Shares; and
    - announcements relating to the Company's business or the business of its competitors.

Companies that have experienced volatility in their value have been the subject of securities class action litigation, with the potential for the Group to be involved in similar litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources with a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***Volatility of Share Price***
The market price of the Common Shares may be subject to fluctuations in response to factors, including variations in the operating results of Falcon, divergence in financial results from market expectations, general economic conditions, legislative changes in the sector and other events and factors outside the Group's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares. The value of Common Shares may go down as well as up. Investors may therefore realise less than or lose all their original investment.

***Falcon is incorporated in British Columbia, Canada and is subject to Canadian company law.***
Falcon is incorporated in the province of British Columbia, Canada and its corporate structure, the rights and obligations of shareholders and its corporate bodies may be different from those of the home countries of international investors. Furthermore, non-Canadian residents may find it more difficult and costly to exercise shareholder rights. International investors may also find it costly and difficult to effect service of process and enforce their civil liabilities against the Company or some of its directors, controlling persons and officers.

***A disposal of Common Shares by major Shareholders could adversely impact the market price of Common Shares***
Sales of a substantial number of Common Shares in the market by major shareholders, or the perception that these sales might occur, could adversely impact the market price of the Common Shares.

***Trading in the Common Shares may be suspended and/or the Common Shares may be excluded from trading on a stock exchange on which it is listed.***
Falcon's Common Shares are traded on the TSX Venture Exchange (symbol: FO.V); AIM, the market operated by the London Stock Exchange (symbol: FOG) and ESM, the market regulated by the Irish Stock Exchange (symbol: FAC). These stock exchanges have the right to suspend the trading of a given security if the issuer of the security fails to comply with the regulations of that exchange (such as for example to obey the disclosure rules), or if suspension is necessary to protect the interest of market participants, or if the orderly functioning of the market is temporarily endangered. There can be no assurance that trading in the Common Shares will not be suspended. A suspension of trading could adversely affect the trading price of the Common Shares.

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## 5. DIVIDENDS & DISTRIBUTIONS

Falcon has not declared any dividends on the Common Shares. Given the Group's current exploration stage, the Board does not anticipate paying any dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board and will depend upon Falcon's financial condition, results of operations, capital requirements and such other factors as the Board deems relevant.

## 6. DESCRIPTION OF CAPITAL STRUCTURE

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

| **Class of securities** | **31 December 2017** |
|---|---|
| Common shares | 930,404,183 |
| Stock options (i) | 42,233,334 |
| Hess warrants(ii) | 10,000,000 |

(i) A maximum of 10% of the issued and outstanding shares of Falcon are reserved for issuance pursuant to Falcon's stock option plan. The number of shares available for issuance under the stock option plan at 31 December 2017 was 50,807,084.

(ii) In April 2011, Falcon entered into a joint venture with Hess, with Hess granted a warrant to acquire 10,000,000 common shares in the capital of Falcon under the terms of the agreement at an exercise price of CDN$0.19 per share, exercisable up to 13 January 2015. In June 2014, the term of the warrant was extended to 13 January 2020 to facilitate the termination of the participation agreement and joint operating agreements with Hess.

On 3 October 2017, Falcon announced the transfer of the warrant from Hess to Nicolas Mathys. The terms of the warrant remain unchanged, with an exercise price of CDN$0.19 per share and an expiry date of 13 January 2020.

Falcon is authorised to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to receive notice of any meetings of shareholders of Falcon, and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis dividends, as and when declared by the Board at its discretion from funds legally available. Upon the liquidation, dissolution or winding up of Falcon shareholders are entitled to receive on a pro rata basis the net assets of Falcon after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

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## 7. MARKET FOR SECURITIES

### Trading price and volume

Falcon's Common Shares are traded on the TSX Venture Exchange (symbol: FO.V); AIM, the market operated by the London Stock Exchange (symbol: FOG) and ESM, the market regulated by the Irish Stock Exchange (symbol: FAC).

The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate trading volume of the Common Shares on the TSXV(1):

| Period | High CDN$ | Low CDN$ | Trading volume |
|---|---|---|---|
| April 2018(2) | 0.380 | 0.335 | 2,510,942 |
| March 2018 | 0.345 | 0.310 | 6,634,066 |
| February 2018 | 0.340 | 0.260 | 5,194,590 |
| January 2018 | 0.320 | 0.280 | 4,731,249 |
| December 2017 | 0.405 | 0.315 | 5,273,378 |
| November 2017 | 0.385 | 0.305 | 6,760,473 |
| October 2017 | 0.405 | 0.365 | 3,975,800 |
| September 2017 | 0.395 | 0.355 | 6,231,685 |
| August 2017 | 0.400 | 0.360 | 3,728,726 |
| July 2017 | 0.375 | 0.320 | 7,810,006 |
| June 2017 | 0.410 | 0.360 | 4,076,372 |
| May 2017 | 0.480 | 0.385 | 16,423,106 |
| April 2017 | 0.450 | 0.340 | 13,126,152 |
| March 2017 | 0.450 | 0.230 | 27,938,428 |
| February 2017 | 0.245 | 0.085 | 36,505,611 |
| January 2017 | 0.110 | 0.090 | 6,619,419 |

Notes:
(1) Data obtained from the TSX-V.
(2) Up to an including the trading of the Common Shares on the close of business on 10 April 2018.

### Prior Sales

The following stock options were granted during the year ended 31 December 2017:

| Date of grant | Options | Exercise price CDN$ | Date of Expiry |
|---|---|---|---|
| 22 February 2017 | 6,000,000 | 0.200 | 21 February 2022 |

## 8. ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER

| Designation of class | Number of securities held in escrow or that are subject to a contractual restriction on transfer | Percentage of class as at 31 December 2017 |
|---|---|---|
| Common shares | 60,000 | 0.01% |
| Common shares – Note 1 | 53,823,000 | 5.78% |

**Note 1**: During 2013, Falcon completed an agreement with Sweetpea to acquire its 50 million shares or 24.2% interest in Falcon Australia. The terms of the agreement included the issue of 97.86 million Falcon shares ("**New Falcon Shares**") to Sweetpea. Upon completion of the agreement, Sweetpea's shareholding in the enlarged share capital of Falcon was 10.7%, at that time. The transaction closed on 17 July 2013. The New Falcon Shares are held in an Escrow account with the New Falcon Shares locked up for three years, and Sweetpea, commencing from the date of closing, being permitted to sell 15% each year during the lock up period.

## 9. DIRECTORS & EXECUTIVE OFFICERS

The following table sets out Falcon's directors and executive officers as of the date hereof, provides the person's name, location of residence, position(s) held with Falcon, principal occupation during the last five years and if a director, the date on which the person became a director. Each of Falcon's directors will hold office until the close of the next annual meeting of shareholders or until such director's successor is duly elected or appointed. Falcon understands based on information available publicly, that all of Falcon's current directors and executive officers as a group beneficially own, control or direct, directly or indirectly, over 3,483,696 common shares representing, as at 11 April 2018, approximately 0.37% of Falcon's issued and outstanding common shares.

The full names, functions and dates of appointment of the Directors are as follows:

| Name & residence | Function | Date of appointment | Principal occupation during last 5 years |
|---|---|---|---|
| JoAchim Conrad, Potsdam, Germany (2) | Non-executive Chairman | 6 October 2008 | Chairman of the Advisory Board of MegaTop Solutions,<br>Chairman of the Board of the German Institute for Energy Efficiency (Deutsches Institut für Energieeffizienz)<br>Managing Director of Gazprom Marketing and Trading GmbH<br>Managing Director of Bosphorus Gaz Corporation A.Ş. |
| Philip O'Quigley, Dublin, Ireland | Chief Executive Officer | 25 September 2012 | CEO of Falcon Oil & Gas Ltd. and former Finance Director, Providence Resources plc |
| Daryl H. Gilbert, Calgary, Alberta, Canada (1) (2) (3) | Non-executive Director | 21 September 2007 | Independent Businessman |
| Gregory Smith, Calgary, Alberta, Canada (1)(2)(3) | Non-executive Director | 22 December 2009 | Chartered Accountant<br>President of Oakridge Financial Management Inc.<br>Director and officer of CanadaBis Capital Inc.<br>Director and CFO of Maglin Site Furniture Inc. |
| Maxim Mayorets Moscow, Russia (1)(2) | Non-executive Director | 10 December 2014 | Member of the Executive Board and M&A Director at Renova Group |
| Anne Flynn | Chief Financial Officer | 05 October 2016 | Group Financial Controller, Falcon Oil & Gas Ltd,<br>Management at Adobe Systems Inc. |
| Bruce Lawrence<br>Calgary, Alberta, Canada | Corporate Secretary | 13 October 2017 | Partner at Borden Ladner Gervais LLP |

Notes:
(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the reserves committee

**JoAchim Conrad -** *Non-Executive Chairman*
Mr. Conrad, a Director of Falcon Oil & Gas Ltd. since 2008 was elected Chairman of the Board in December 2015.

Since 2016, Mr. Conrad is the Chairman of the Advisory Board of Germany, Berlin-based energy services company MegaTop Solutions, which integrates high-tech renewable energy production solutions with advanced traditional technologies, including but not limited to solar technologies, combined heat and power (CHP) production and smart metering. Mr. Conrad is also the Chairman of the Board of the German Institute for Energy Efficiency (Deutsches Institut für Energieeffizienz) since 2015.

Mr. Conrad served as Executive Managing Director, Member of the Board of Directors of Bosphorus Gaz Corporation, Istanbul, Turkey, and Senior Advisor to the Management of Gazprom Germania GmbH, which owns the 71% percent majority stake of Bosphorus Gaz from 2012 to 2017. Previously, Mr. Conrad was the Managing Director of Berlin-based Gazprom Marketing & Trading GmbH from 2009 to 2011.

Between 2003 and 2009, Mr. Conrad worked with Swiss-based EGL AG, which was later integrated into Axpo AG. While at EGL, Mr. Conrad was Head of Gas, but also in charge of power and gas operations in eastern Europe, as well as a member of EGL's Executive Management. Besides expanding EGL's gas and power operations in eastern Europe, Mr. Conrad also played a key role in developing and starting to implement plans to launch the Trans Adriatic Pipeline (TAP) project that he originally masterminded. TAP later attracted Statoil of Norway and other industry giants such as BP, Total, E.ON, SOCAR and Fluxys among its shareholders, as Azerbaijan in 2013 selected it as the pipeline project of choice for its new gas exports to Europe in the fourth import corridor of natural gas to Europe.

Mr. Conrad is a certified business economist. He is married and father of two sons.

**Philip O'Quigley -** *Chief Executive Officer & Executive Director*
Mr. O'Quigley has been a member of the Board since September 2012 and has been Chief Executive Officer of Falcon since May 2012. Mr. O'Quigley brings over 25 years' experience in senior management positions in the oil and gas industry. His career, which spans a number of London and Dublin listed exploration and production companies, includes experience working in countries such as Argentina, the United States, Algeria, the UK and Ireland. Before joining Falcon, he served as Finance Director for Providence Resources plc, an Irish oil and gas exploration and production company and he remains on the board of Providence Resources plc as a non-executive director. Mr. O'Quigley is a Fellow of the Institute of Chartered Accountants in Ireland and qualified as a Chartered Accountant with Ernst & Young in Dublin.

**Daryl H. Gilbert -** *Non-Executive Director*
Mr. Gilbert has been a member of the Board since September 2007 and is a Professional Petroleum Engineer with over 40 years' experience in both the Canadian and international oil and gas industries. Mr. Gilbert serves as a director of several energy related public entities in addition to Falcon including AltaGas Ltd., Whitecap Resources Inc. and Surge Energy Inc. He is also a Managing Director of JOG Capital Inc., a private equity oil and gas investment firm located in Calgary, Alberta. The greater part of Mr. Gilbert's career was spent in the independent energy evaluation consulting sector. In 1979, he joined the predecessor oil and gas engineering and geological firm which became Gilbert Laustsen Jung Associates Ltd. ("**GLJ**") where he served as a Principal Officer beginning in 1988 and as President and Chief Executive Officer from 1994 through to his retirement from consulting in 2005. Mr. Gilbert has a BSc from the University of Manitoba in Civil Engineering and is a member of the Association of Petroleum Engineers, and Geoscientists of Alberta and the Society of Petroleum Engineers.

**Gregory Smith -** *Non-Executive Director*
Mr. Smith has been a member of the Board and Chairman of the Audit Committee since December 2009 and is a Chartered Professional Accountant and President of Oakridge Financial Management Inc., a provider of financial and management consulting services to private and public companies. He is also the CFO and a director of Maglin Site Furniture Inc., a corporation that manufacturers and distributes public site furniture primarily in Canada and the United States. He is currently a director of Rhode & Liesenfeld Canada Inc., a company involved in international freight forwarding, specializing in industrial and resource industries; an officer and director of CanadaBis Capital Inc. and a director of a number of private corporations. He is a past director and audit committee chairman of a number of public and private resource corporations including Kerr Mines Inc., TriWestern Energy Inc., Manson Creek Resources Ltd., CDG Investments Inc. and Tyler Resources Inc. Mr. Smith was admitted to the Institute of Chartered Professional Accountants of Alberta in 1975 and holds a Bachelor of Commerce degree from the University of Calgary.

**Maxim Mayorets -** *Non-Executive Director*
Mr. Mayorets is a M&A Director at Renova Group. Mr. Mayorets graduated from the Moscow State Institute of International Relations in 1999 and the Financial Academy under the auspices of the Government of the Russian Federation in 2001. From 2000 to 2002 Mr. Mayorets was head of the financial department at ZAO Medical Technologies Ltd. From 2002 to 2010 Mr. Mayorets held various positions in the International Business Division at OAO Gazprom, acted as head of several Gazprom subsidiaries, was on the boards of directors of the company's businesses and from 2007 Mr. Mayorets was deputy head of the international business department of OAO Gazprom. Since May 2010, Mr. Mayorets has held the position of the M&A Director at Renova Group.

**Anne Flynn -** *Chief Financial Officer*
Ms. Flynn was appointed Chief Financial Officer in October 2016. Ms. Flynn joined Falcon in September 2014 as Group Financial Controller with responsibility for the Group's Dublin, Hungarian and Australian finance and commercial functions. She joined Falcon following over three years in a managerial role with Adobe Systems Inc. Prior to Adobe, Anne worked with PwC Dublin and PwC New York for six years. Anne is a member of Chartered Accountants Ireland.

**Bruce Lawrence -** *Corporate secretary*
Bruce Lawrence is a partner at Borden Ladner Gervais, LLP in the securities and capital markets group, and is the former Regional Chair of their oil and gas focus group. Based in Calgary, Bruce has practised in the corporate/commercial area since 1982, with an emphasis on clients involved in the natural resources sector. The bulk of his practice involves corporate and securities transactions with exposure to numerous public and private financings, mergers, acquisitions, take-over bids and plans of arrangement. Bruce is also involved in oil sands and off-shore oil and gas development.

**Penalties & sanctions**

No director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of the Company to materially affect the control of Falcon, has or within 10 years prior to the date of this Annual Information Form, been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to securities legislation, has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self regulatory body, that would likely be considered important to a reasonable security holder making an investment decision about Falcon.

**Corporate cease trade orders or bankruptcy**

Daryl Gilbert was a director of Globel Direct Inc., a public business process outsource company, from December 1998 to June 2009.The company was granted protection under the "Companies Creditor Arrangement Act" in June 2007. After a failed restructuring effort, the company was placed in receivership in December 2007. Operations ceased and the stock delisted in September 2008.

Daryl Gilbert was a director of LGX Oil and Gas Inc. ("LGX"), a public oil and gas company, from August 2013 until June 2016. On 7 June 2016 a consent receivership order was granted by the Alberta Court of Queen's Bench upon an application by the corporation's senior lender. The stock was delisted shortly thereafter. A receiver manager was appointed and a liquidation process is underway.

Daryl. Gilbert has been a director of Connacher Oil & Gas Limited ("Connacher"), a public oil sands company, since October of 2014. On 17 May 2016, Connacher applied for and was granted protection from its creditors by the Court of Queen's Bench of Alberta pursuant to the "Companies Creditor Arrangement Act". The company was delisted immediately following the Court Order. A restructuring process is currently underway.

Gregory Smith was a director of Sportsclick Inc. which was the subject of an order of the Supreme Court of Nova Scotia in July 2009 protecting it from proceedings by creditors pursuant to the Bankruptcy and Insolvency Act and appointed Ernst & Young Inc. as receiver. Sportsclick has exited from receivership upon winning a court action against a major Canadian chartered bank resulting in the bank relinquishing all claims against the company.

Other than set forth above, no director or executive officer of Falcon is, or within the ten years prior to the date of this Annual Information Form, has been, a director or executive officer of any company that, while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty consecutive days; or was subject to an order that was issued after the director or executive officer ceased to be a director or executive officer and which resulted from an event that occurred while that person was acting in the capacity as director or executive officer.

Other than set forth above, no director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of Falcon to materially affect the control of Falcon is, or within the ten years prior to the date of this Annual Information Form, has been, a director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Other than is set forth above, no director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of Falcon to materially affect the control of Falcon has, within the ten years prior to the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

**Conflicts of interest**

Certain officers and directors of Falcon are directors or officers of other oil and gas exploration companies. Consequently, potential conflicts of interest may arise in the event that these companies compete in respect of the sale or option of oil and gas properties in which Falcon is or may be interested.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the BCA and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

## Executive Compensation

For the purposes of the AIF, a "named executive officer" of the Corporation means an individual who, at any time during the year, was (each a "**Named Executive Officer**"):

a) the Corporation's chief executive officer ("**CEO**");
b) the Corporation's chief financial officer ("**CFO**");
c) the Corporation's most highly compensated executive officers other than the CEO and CFO, at the end of the most recently completed financial year and whose total compensation was more than Canadian ("**CDN**") $150,000 for that financial year; and
d) each individual who would be a Named Executive Officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Corporation, nor acting in a similar capacity, at the end of the most recently completed financial year.

Based on the foregoing definition, during the last completed financial year of the Corporation, there were three Named Executive Officers ("**NEO**").

### *Compensation Discussion and Analysis*

In assessing the compensation of its executive officers, the Corporation does not have in place formal objectives, criteria or analysis; it is through Board discussion, with input from and upon the recommendations of the Compensation Committee. The Compensation Committee is comprised of JoAchim Conrad, Greg Smith, Daryl Gilbert and Maxim Mayorets.

The Corporation's executive compensation program has the following principal components: base salary, pension contribution, company healthcare plan, incentive bonus plan and stock options.

Base salaries, pension contributions and participation in the company healthcare plan for all employees of the Corporation are established for each position through comparative salary surveys of similar type and size companies. Both individual and corporate performances are also taken into account.

Incentive bonuses, in the form of cash payments, are designed to add a variable component of compensation based on corporate and individual performances for executive officers and employees. Individual bonuses for achievement of specific performance targets in addition to bonuses based on the average increase in the weighted market capitalisation of the company during the most recently completed financial year in reference to the anniversary of the commencement date of a particular employee are paid. In addition, the Compensation Committee may recommend a discretionary bonus to NEO's for exceptional performance.

Stock options are granted to provide an incentive to the directors, officers, employees and consultants (collectively, the "**Participants**") to achieve the longer-term objectives of the Corporation; to give suitable recognition to the ability and industry of such persons who contribute materially to the success of the Corporation; and to attract and retain persons of experience and ability, by providing them with the opportunity to acquire an increased proprietary interest in the Corporation. The Corporation awards stock options to the Participants based upon the recommendation of the Compensation Committee. Previous grants of incentive stock options are taken into account when considering new grants.

Implementation of a new incentive stock option plan and amendments to the Stock Option Plan are the responsibility of the Compensation Committee.

The Compensation Committee is responsible for setting the pay and conditions of the Company's Directors and Officers. This Committee reviews periodically the adequacy and form of the compensation of the Directors with a view to ensuring that such compensation realistically reflects the responsibilities and risks of being a director.

The Corporation has no other forms of compensation, although payments may be made from time to time to individuals or companies they control for the provision of consulting services. Such consulting services are paid for by the Corporation at competitive industry rates for work of a similar nature by reputable arm's length services providers.

### Summary Compensation Table

The following table sets forth the compensation awarded to, earned by, paid to, or payable to the NEO and directors for the two most recently completed financial years, with the most recent such financial year ended 31 December 2017:

| Name and principal position | Year | Salary US$ | Bonus US$ | Director Fees US$ | Value of all other compensation US$(5) | Total compensation US$ |
|---|---|---|---|---|---|---|
| Philip O'Quigley (CEO) | 2017<br>2016 | 390,000<br>390,000 | 48,000<br>4,000 | -<br>- | 66,000<br>66,000 | 504,000<br>460,000 |
| Anne Flynn (CFO) (1) | 2017<br>2016 | 169,000<br>114,000 | 83,000<br>- | -<br>- | 19,000<br>13,000 | 271,000<br>127,000 |
| JoAchim Conrad (Director) | 2017<br>2016 | -<br>- | | 48,000<br>48,000 | -<br>- | 48,000<br>48,000 |
| Daryl H. Gilbert (Director) | 2017<br>2016 | -<br>- | | 42,000<br>42,000 | -<br>- | 42,000<br>42,000 |
| Gregory Smith(2) (Director) | 2017<br>2016 | -<br>- | | 42,000<br>42,000 | -<br>- | 42,000<br>42,000 |
| Maxim Mayorets (Director) | 2017<br>2016 | -<br>- | | 42,000<br>42,000 | -<br>- | 42,000<br>42,000 |
| Dr. György Szabó (3) (Director) | 2017<br>2016 | -<br>- | | 18,000<br>36,000 | -<br>- | 18,000<br>36,000 |
| John Craven(4) (Director) | 2017<br>2016 | -<br>- | | -<br>17,000 | -<br>- | -<br>17,000 |

**Notes:**
(1) Ms. Anne Flynn was appointed CFO on 5 October 2016.
(2) 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$800 (2016: CDN$630) to Oakridge Financial Management Inc. during the year ended 31 December 2017.
(3) Dr. György Szabó retired from the Board with effect from 30 June 2017.
(4) Mr. John Craven stepped down from the Board with effect from 21 June 2016.
(5) Value of all over compensation relates to pension and health insurance contributions.

### *Incentive Plan Awards*

### *Outstanding Share-Based Awards and Option-Based Awards*

The following tables sets forth the stock options granted during the year ended 31 December 2017 and held at 31 December 2017:

| Name and principal position | Stock Options Granted (1) | Stock options as a % of class | Date of grant (2) | Exercise price (3) | Closing price of security on date of grant (3) | Closing price of security at 31 December 2017 (3) | Expiry date |
|---|---|---|---|---|---|---|---|
| Anne Flynn (CFO) | 6,000,000 | 14% | 22 February 2017 | CDN$0.20 | CDN$0.20 | CDN$0.315 | 21 February 2022 |

(1) The total number of stock options held by the NEOs and directors as at 31 December 2017 including those granted as detailed above are included in the table below:

| Name | Number of unexercised stock options held | Number of Common Shares held |
|---|---|---|
| Philip O'Quigley (CEO) | 14,000,000 | 3,013,696 |
| Anne Flynn (CFO) | 7,000,000 | - |
| JoAchim Conrad (Director) | 4,300,000 | - |
| Daryl H. Gilbert (Director) | 2,700,000 | - |
| Gregory Smith (Director) | 2,700,000 | 470,000 |
| Maxim Mayorets (Director) | 2,500,000 | - |

(2) The fair value of granted options was estimated using a Black Scholes model with the following inputs:

| | 2017 |
|---|---|
| Fair value as at grant date | CDN$0.12 |
| Share price as at grant date | CDN$0.20 |
| Exercise price | CDN$0.20 |
| Volatility | 82.42% |
| Expected option life | 3.83 years |
| Dividends | Nil |
| Risk - free interest rate | 1.02% |

(3) The prices of the security are based upon the closing price for the Common Shares on the TSX-V on the 22 February 2017 and 31 December 2017 respectively.

The previous table setting out the stock options granted during the year ended 31 December 2017 presented in US$ using a rate of 1 Canadian dollar equals US$0.79659 is as follows:

| Name and principal position | Stock Options Granted | Stock options as a % of class | Date of grant | Exercise price | Closing price of security on date of grant | Closing price of security at 31 December 2016 | Expiry date |
|---|---|---|---|---|---|---|---|
| Anne Flynn (CFO) | 6,000,000 | 14% | 22 February 2017 | US$0.159 | US$0.159 | US$0.251 | 21 February 2022 |

### *Exercise of Compensation Securities by Directors and NEOs*

The following table sets stock options exercised by a director or NEO of compensation securities during the year ended 31 December 2017:

| Name and principal position | Type of compensation security | Number of underlying securities exercised | Exercise price per security [1] | Date of exercise | Closing price of security on date of grant [1] | Difference between exercise price and closing price on date of exercise [1] | Total value on exercise date [1] |
|---|---|---|---|---|---|---|---|
| Philip O'Quigley (CEO) | Stock options | 6,000,000 | CDN$0.10 | 20 February 2017 | CDN$0.24 | CDN$0.14 | CDN840,000 |

(1) The previous table setting out the stock options exercised during the year ended 31 December 2017 presented in US$ using a rate of 1 Canadian dollar equals US$0.79659 is as follows:

| Name and principal position | Type of compensation security | Number of underlying securities exercised | Exercise price per security | Date of exercise | Closing price of security on date of grant | Difference between exercise price and closing price on date of exercise | Total value on exercise date |
|---|---|---|---|---|---|---|---|
| Philip O'Quigley (CEO) | Stock options | 6,000,000 | US$0.08 | 20 February 2017 | US$0.19 | USD$0.11 | US$660,000 |

### *Stock Option Plan*

In 2004, the Shareholders approved the Corporation's stock option plan in substantially its current form (the "**Stock Option Plan**"), which is known as a "rolling plan". The Stock Option Plan requires the approval of the Shareholders each year at the annual general meeting of the Shareholders in accordance with the terms of the Stock Option Plan and TSX Venture Exchange ("**TSX-V**") Policy 4.4 – "Incentive Stock Options" ("**Policy 4.4**"). The Stock Option Plan was approved at the annual shareholders meeting held on 14 September 2017.

The following is a summary of the principal terms of the Stock Option Plan, which summary is qualified by and is subject to the full terms and conditions of the Stock Option Plan. Except as otherwise defined herein, capitalised terms used herein have the meanings ascribed thereto in the Stock Option Plan.

The Shareholders initially approved the Stock Option Plan on 18 November 2004 and subsequently at each annual general and special meeting of the Corporation held thereafter. Ten percent (10%) of the number of issued and outstanding Common Shares from time to time are currently reserved for issuance upon the exercise of options granted pursuant to the Stock Option Plan. As at 11 April 2018, 42,233,334 stock options are issued and outstanding.

The purpose of the Stock Option Plan is to attract, retain and motivate directors, officers, employees and consultants (collectively, the "**Participants**") by providing them with the opportunity, through stock options, to acquire a proprietary interest in the Corporation and benefit from its growth. In management's view, the ability to grant stock options as a means of compensating Participants contributes to the Corporation's overall financial performance. As such, management considers that the Stock Option Plan is beneficial to the Corporation as it provides the Corporation with greater flexibility to compensate eligible Participants with grants of stock options and encourage Participant ownership of the Corporation.

The options are non-assignable and may be granted for a term not exceeding five (5) years, unless the Corporation is listed on Tier 1 of the TSX-V in which case the options may be granted for a term not exceeding ten (10) years. Options may be granted under the Stock Option Plan only to Participants or to persons that have agreed to commence serving in any of the aforementioned capacities subject to the rules and regulations of applicable regulatory authorities and any Canadian stock exchange upon which the Common Shares may be listed or may trade from time to time. The number of Common Shares reserved for issue to any one person pursuant to the Stock Option Plan may not exceed five percent (5%) of the issued and outstanding Common Shares at the date of such grant or in any twelve-month period. The exercise price of options issued may be issued at the market price of the Common Shares as listed on the TSX-V, subject to any discounts permitted by applicable legislative and regulatory requirements.

**Summary of employment contracts of each named executive officer**

The following describes the material terms and conditions of the employment contracts including termination provisions and change of control benefits of each NEO in effect during the financial year ended 31 December 2017.

<u>Mr. Philip O'Quigley</u>
Mr. O'Quigley was appointed as a Director in September 2012. Mr. O'Quigley accepted the position of Chief Executive Officer pursuant to an employment contract dated 10 April 2012, commencing employment on 1 May 2012. Mr. O'Quigley receives an annual salary of US$390,000 and is eligible for a bonus of up to 50% of the sum of Mr. O'Quigley's annual salary plus the annual contribution to his pension plan. His salary can be further increased by US$50,000 on the achievement of certain future targets. The Company can terminate the employment contract on twelve months' notice, or payment in lieu of notice, at an estimated cost of $455,000 to Falcon. This contract does not include a "change of control" provision.

<u>Ms. Anne Flynn</u>
Ms. Flynn was appointed Chief Financial Officer on 5 October 2016. Ms. Flynn is paid an annual salary of €180,000 and is eligible for a bonus of up to 50% of her annual salary. The Company can terminate the employment agreement on six months' notice, or payment in lieu of notice, at an estimated cost of $120,000 to Falcon. This contract does not include a "change of control" provision.

**Pension Plan Benefits**

In line with the terms of the respective employment agreements for the NEOs the following was paid into their respective defined contribution plans:

| Name | Accumulated value at start of year US$ | Compensatory US$ | Accumulated value at end of year US$ |
|---|---|---|---|
| Philip O'Quigley (CEO) | Nil | 60,000 | 60,000 |
| Anne Flynn (CFO) | Nil | 17,000 | 17,000 |

No other benefits were paid, and no other benefits are proposed to be paid to the NEOs of any pension or retirement plan.

No deferred compensation plans were paid, and no benefits are proposed to be paid to any NEO of the Corporation under a deferred compensation plan.

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## 10. LEGAL PROCEEDINGS & REGULATORY ACTIONS

The Company has not been involved in any legal proceedings during the financial year and as of 11 April 2018, no legal proceedings are contemplated.

## 11. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of Falcon's current directors or executive officers has any interest, direct or indirect, in any material transactions in which Falcon has participated since 1 January 2015.

Except as disclosed below no persons or companies that are the direct or indirect beneficial owners of, or who exercise control or direction over, more than 10% of the outstanding Common Shares, or any associate or affiliate of any of the foregoing, has any interest, direct or indirect, in any material transactions in which Falcon has participated since 1 January 2015.

As disclosed in the Falcon Management Information circular 28 August 2013, Sweetpea Petroleum Pty Ltd, a 100% subsidiary of PetroHunter Energy Corporation ("**PetroHunter**") of Maryland, USA was the beneficial owner of 97,860,000 shares in Falcon, which represented approximately 10.86% of Falcon's issued Common Shares at that date. As at 24 March 2017, Falcon announced that Sweetpea had informed the Company that they held 80,625,170 shares in Falcon representing 8.67% of Falcons issued common shares.

As disclosed in their Form 10-K filing (available at www.sec.gov) with the United Sates Securities and Exchange Commission for the period ended 30 September 2012, filed on 18 December 2013, of PetroHunter Energy Corporation; entities related to or controlled by Mr. Christian Russenberger of Meirhofrain 36, Wadenswil 8820, Switzerland beneficially own approximately 27.2% of PetroHunter's common stock as at 10 December 2013.

On 1 November 2013, Falcon announced that Falcon Australia, had entered into an agreement (the "**CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% Overriding Royalty Interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin. The key transaction details were:

- Falcon Australia made an initial payment to CRIAG of $999,000 on signing the CRIAG Agreement;
- Falcon Australia made a second payment to CRIAG of $999,000 to acquire the first 3% (three fourths) of the ORRI upon completion of a farm-out deal in Australia;
- CRIAG has granted Falcon Australia a five year call option to acquire the remaining 1% (one fourth) for $5 million; and
- All ORRI's acquired under the CRIAG Agreement will be immediately cancelled by Falcon Australia.

On completion of Falcon's Beetaloo farm-out as announced on 21 August 2014, Falcon Australia made the second payment to CRIAG in the amount of $999,000. As detailed in the CRIAG agreement, Falcon and Origin have the option to reduce this royalty further to 1% by the exercise of a 5 year call option. The call option will be funded by Falcon and Origin in proportion to their interest in the permits.

As far as the Company is aware Mr. Russenberger is the sole director of CR Innovations AG.

## 12. TRANSFER AGENT & REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada, 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, Canada. Computershare Investor Services Plc acts as the depositary in the United Kingdom and is located at The Pavilions, Bridgewater Road, Bristol, BS99 6ZY, United Kingdom.

## 13. MATERIAL CONTRACTS

Falcon has not entered into any material contracts outside of the ordinary course of business in the last financial year or before the last financial year which are still in effect.

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## 14. INTERESTS OF EXPERTS

### Names of experts

The names of the experts are as follows:

- Charles W. Chapman, co-author of the 51-101F2 Report, Chapman Petroleum Engineering Ltd, 445, 708-11th Avenue S.W., Calgary, Alberta, T2R 0E4, Canada;
- BDO LLP, the Company's auditors, 55 Baker Street, London W1U 7EU, United Kindgom; and
- RPS Energy author of the RPS 2013 Report, 411N. Sam Houston Parkway E., Suite 400 Houston, Texas 77060-3545, U.S.A.

### Interests of experts

As of the date hereof, the directors, officers, employees and partners, as applicable, of each of the aforementioned companies and partnerships beneficially own, directly or indirectly in the aggregate, less than one percent of the securities of the Company. No director, officer, employee or partner, as applicable, of the aforementioned companies or partnerships is currently expected to be elected, appointed or employee as a director, officer or employee of the Company or of any associate or affiliate of the Company.

BDO LLP are the auditors of the Group and have confirmed that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation up to the date of their auditors' report 11 April 2018.

## 15. ADDITIONAL INFORMATION

Additional information relating to Falcon may be found on SEDAR at www.sedar.com.

Additional financial information is provided in Falcon's audited consolidated financial statements and MD&A for the year ended 31 December 2017.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Falcon's securities and options to purchase Falcon's securities, where applicable, is contained in Falcon's most recent information circular dated 02 August 2017.

**[End of document]**