Falcon Oil & Gas Ltd.

Consolidated Financial Statements
Year Ended 31 December 2014

(Presented in U.S. Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Falcon Oil & Gas Ltd.

We have audited the accompanying consolidated financial statements of Falcon Oil & Gas Ltd. for the year ended 31 December 2014 and the year ended 31 December 2013 which comprise the consolidated statement of financial position, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards as issued by the IAASB.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (as issued by the International Auditing and Assurance Standards Board) and Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Falcon Oil & Gas Ltd. as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO LLP

BDO LLP

London

28 April 2015

Falcon Oil & Gas Ltd.
Consolidated Statement of Operations and Comprehensive loss

	Notes	Year Ended 31 December 2014 $'000	Year Ended 31 December 2013 $'000
Revenue			
Oil and natural gas revenue	5	**26**	17
		26	17
Expenses			
Exploration and evaluation expenses		**(852)**	(899)
Production and operating expenses		**(27)**	(27)
Depreciation	12	**(128)**	(307)
General and administrative expenses		**(4,046)**	(4,656)
Share based compensation	17	**(197)**	(693)
Restructuring expenses	23	**(444)**	-
Impairment	11,12	**(26,526)**	-
Foreign exchange (loss) / gain		**(189)**	326
Other income		**482**	683
		(31,927)	(5,573)
Results from operating activities		**(31,901)**	(5,556)
Fair value gain – outstanding warrants	21	**883**	3,895
Finance income	6	**49**	601
Finance expense	6	**(799)**	(2,510)
Net finance expense		**(750)**	(1,909)
Loss and comprehensive loss for the year		**(31,768)**	(3,570)
Loss and comprehensive loss attributable to:			
Equity holders of the company		**(31,744)**	(3,411)
Non-controlling interests		**(24)**	(159)
Loss and comprehensive loss for the year		**(31,768)**	(3,570)
Loss per share attributable to equity holders of the company:			
Basic and diluted	7	**($0.034)**	($0.004)

The notes are an integral part of these consolidated financial statements.

On behalf of the Board:

'Gregory Smith'
Gregory Smith

'Philip O'Quigley'
Philip O'Quigley

Falcon Oil & Gas Ltd.
Consolidated Statement of Financial Position

	Notes	At 31 December 2014 $'000	At 31 December 2013 $'000
Assets			
Non-current assets			
Exploration and evaluation assets	11	**39,619**	74,517
Property, plant and equipment	12	**103**	5,403
Trade and other receivables	13	**104**	77
Restricted cash	15	**331**	396
		40,157	80,393
Current assets			
Cash and cash on deposit	14	**14,753**	8,431
Restricted cash	15	**-**	219
Trade and other receivables	13	**443**	473
		15,196	9,123
Total assets		**55,353**	89,516
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	16	**382,853**	382,853
Contributed surplus		**42,660**	42,463
Retained deficit		**(382,349)**	(350,605)
		43,164	74,711
Non-controlling interests		**713**	737
Total equity		**43,877**	75,448
Liabilities			
Non-current liabilities			
Decommissioning provision	22	**9,493**	11,138
		9,493	11,138
Current liabilities			
Accounts payable and accrued expenses	23	**1,469**	1,533
Derivative financial liabilities	21	**514**	1,397
		1,983	2,930
Total liabilities		**11,476**	14,068
Total equity and liabilities		**55,353**	89,516

The notes are an integral part of these consolidated financial statements.

Falcon Oil & Gas Ltd.
Consolidated Statement of Changes in Equity

	Notes	Share capital $'000	Contributed surplus $'000	Retained deficit $'000	Equity interests of the parent $'000	Non-Controlling interests ("NCI") $'000	Total equity $'000
At 1 January 2013		339,334	41,858	(334,279)	**46,913**	10,882	**57,795**
Private placement	16	23,515	-	-	**23,515**	-	**23,515**
Share based compensation	17	-	693	-	**693**	-	**693**
Transaction with NCI	18	19,804	-	(12,915)	**6,889**	(9,986)	**(3,097)**
Options exercised		200	(88)	-	**112**	-	**112**
Net loss for the year		-	-	(3,411)	**(3,411)**	(159)	**(3,570)**
At 31 December 2013		382,853	42,463	(350,605)	**74,711**	737	**75,448**
Share based compensation	17	-	197	-	**197**	-	**197**
Net loss for the year		-	-	(31,744)	**(31,744)**	(24)	**(31,768)**
At 31 December 2014		382,853	42,660	(382,349)	**43,164**	713	**43,877**

The notes are an integral part of these consolidated financial statements.

Falcon Oil & Gas Ltd.
Consolidated Statement of Cash flows

	Notes	Year Ended 31 December **2014** **$'000**	2013 $'000
Cash flows from operating activities			
Net loss for the year		**(31,768)**	(3,570)
Adjustments for:			
Share based compensation		**197**	693
Depreciation		**128**	307
Impairment		**26,526**	-
Fair value gain - outstanding warrants		**(883)**	(3,895)
Net finance expense		**750**	1,909
Other		**228**	(383)
Contribution to past costs - Chevron		**-**	1,000
Change in non-cash working capital			
Trade and other receivables		**3**	337
Accounts payable and accrued expenses		**(567)**	(1,191)
Interest paid		**-**	(573)
Interest received	6	**49**	102
Net cash used in operating activities		**(5,337)**	(5,264)
Cash flows from investing activities			
Proceeds from farm-out transaction – Origin - Sasol		**20,471**	-
GST remitted on farm-out proceeds		**(1,861)**	-
Decrease in restricted cash		**219**	258
Exploration and evaluation assets		**(7,130)**	(1,964)
Proceeds from farm-out transaction – NIS		**-**	1,500
Increase in cash deposits – other receivables		**(6,000)**	-
Property, plant and equipment		**(9)**	(32)
Net cash generated / (used) in investing activities		**5,690**	(238)
Cash flows from financing activities			
Proceeds from exercise of share options		**-**	112
Proceeds from private placement – March 2013	16	**-**	25,672
Transaction costs relating to private placement – March 2013	16	**-**	(2,157)
Repayment of 11% debenture		**-**	(10,197)
Share acquisition in Falcon Oil & Gas Australia Ltd ("**Falcon Australia**")	18	**-**	(3,000)
Transaction costs associated with share acquisition in Falcon Australia	18	**-**	(97)
Net cash from financing activities		**-**	10,333
Change in cash and cash equivalents		**353**	4,831
Effect of exchange rates on cash & cash equivalents		**(31)**	716
Cash and cash equivalents at beginning of year		**8,431**	2,884
Cash and cash equivalents at end of year	14	**8,753**	8,431

The notes are an integral part of these consolidated financial statements.

1. General Information

Falcon Oil & Gas Ltd. ("**Falcon**") is an oil and gas company engaged in the acquisition, exploration and development of unconventional and conventional oil and gas assets. Falcon's interests are located in Australia, Hungary, South Africa and Canada.

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

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**"); TXM Marketing Trading & Service Kft., a Hungarian limited liability company ("**TXM Marketing**"); 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**").

2. Accounting policies

The significant accounting policies adopted by the Group are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation and going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the IFRS Interpretations Committee.

On 21 August 2014, the Group completed its Farm-Out Agreement and Joint Operating Agreement (collectively the "**Agreements**") with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited ("**Origin**") and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), (collectively referred to herein as the "**Farminees**"), each farming into 35% of Falcon Australia's Exploration Permits in the Beetaloo Basin, Australia (the "**Permits**"). Falcon Australia received A$20 million cash from the Farminees.

Having given due consideration to the cash requirements of the Group and having received the A$20 million, the Board of Directors ("**the Board**") has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing these consolidated financial statements which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Historical cost convention

The consolidated financial statements have been prepared on the historical cost basis with the exception of certain derivative financial instruments, share options which are measured at fair value and trade and other receivables that are initially recognised at fair value, and subsequently measured at amortised cost less accumulated impairment losses.

2. Accounting policies (continued)

Foreign currency translation

(i) Functional and presentation currency
The consolidated financial statements are presented in United States dollars ("**$**"). All amounts, except as otherwise indicated, are presented in thousands of dollars.

"**CDN$**" where referenced in the financial statements represents Canadian Dollars. "**£**" where referenced in the financial statements represent British Pounds Sterling. "**HUF**" where referenced in the financial statements represents Hungarian Forints. **"A$**" where referenced in the financial statements represents Australian Dollars.

(ii) Transactions and balances
Transactions in foreign currencies are translated to United States dollars, at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the statement of operations and comprehensive loss.

Basis of consolidation

These consolidated financial statements include the accounts of Falcon and the accounts of its subsidiaries. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights;
- Substantive potential voting rights held by the company and by other parties;
- Other contractual arrangements; and
- Historic patterns in voting attendance.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Falcon's equity. Non-controlling interests consists of the non – controlling interest at the date of the change in ownership plus the non-controlling interest's share of changes in equity since that date.

All of the Falcon's subsidiaries are wholly owned except for Falcon Australia of which approximately 98.1% of the outstanding Ordinary Shares are owned by Falcon. The consolidated financial statements include non-controlling interests representing the 1.9% portion of Falcon Australia's assets and liabilities not controlled by Falcon. The reporting dates of the Company and its subsidiaries are coterminous.

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements, except when losses realised on intercompany transactions are evidence of impairment.

Basis of joint operations

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

2. Accounting policies (continued)

Financial assets

The Group classifies its financial assets in the following categories: at fair value through the statement of operations and comprehensive loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through the statement of operations and comprehensive loss
Financial assets at fair value through the statement of operations and comprehensive loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purposes of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are initially recognised at fair value and subsequently recorded at amortised cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "restricted cash" in the balance sheet.

(iii) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They mainly include investments the Group would have in equity securities in which the Group does not have significant influence or control. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are carried at fair value. Changes in the fair value are recognised in other comprehensive income / loss. When available-for-sale financial assets are sold or impaired the accumulated fair value adjustments previously recognised in equity are included in the statement of operations and comprehensive loss as gains and losses. At 31 December 2014 and 31 December 2013, the Group had no assets categorised within this category.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives (including embedded derivatives) are initially recognised at fair value of the date a derivative contract is entered into and subsequently re-measured at their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designated any derivatives as hedges as at 31 December 2014 or 31 December 2013.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. Changes in the fair value of separable embedded derivatives are recognised immediately in the statement of operations and comprehensive loss.

Warrants

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

2. Accounting policies (continued)

Overriding Royalty Interest

A financial liability will arise in relation to the Overriding Royalty Interests on the Group's Exploration licence when it becomes likely that an obligation will exist, which would occur when production commences.

Call options

A financial liability will be recognised in relation to call options to reacquire overriding royalty interests on the Group's exploration assets when these become contractual under the agreement.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

Property, plant and equipment and intangible exploration assets

(i) Recognition and measurement
*- Exploration and evaluation ("**E&E**") expenditures*

Pre-license costs are recognised in the statement of operations and comprehensive loss as part of exploration and evaluation expenses as incurred.

E&E costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalised under full cost accounting, as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable when proven reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as oil and natural gas interests.

Proceeds from disposal or farm-out transactions of intangible exploration assets are used to reduce the carrying amount of the assets. When proceeds exceed the carrying amount, the difference is recognised as a gain. When the Group disposes of its full interests, gains or losses are recognised in accordance with the policy for recognising gains or losses on sale of plant, property and equipment.

- Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generated units (**"CGUs"**) for impairment testing. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" in the statement of operations and comprehensive loss.

- Other fixed assets

Costs incurred on office fixtures and fittings are stated at historical cost less accumulated depreciation and any recognised impairment.

2. Accounting policies (continued)

(ii) Subsequent costs

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

(iii) Depletion, depreciation and amortisation

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

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50% statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90% and 10%, respectively.

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

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

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

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

For other assets, depreciation is recognised in the statement of operations and comprehensive loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment of two to twenty five years. For the pipeline, depreciation is recognised in the statement of operations and comprehensive loss on a usage basis over its estimated useful life. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

2. Accounting policies (continued)

Leased assets

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

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

Other leases are operating leases, which are not recognised on the Company's statement of financial position.

Payments made under operating leases are recognised in the statement of operations and comprehensive loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Impairment

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

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

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

All impairment losses are recognised within profit or loss in the statement of operations and comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of operations and comprehensive loss.

(ii) Non-financial assets
The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

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

2. Accounting policies (continued)

E&E assets are allocated to related CGU when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of operations and comprehensive loss. Impairment losses recognised in respect of CGU are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

Share based compensation

Share based compensation is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The amount recognised as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognised in contributed surplus, is recorded as an increase to share capital.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognised for future operating losses.

(i) Decommissioning provisions
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalised in the relevant asset category.

Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases / decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

(ii) Legal matters
A provision for legal matters is recognised when legal action is threatened or initiated, and management considers it probable that the legal actions will result in an obligation for the Company. The provision is determined based on the expected cash flows, including legal expenses, and considering the time value of money. When the legal matter relates to exploration and evaluation activities, the recognition of the provision and subsequent change in the expected cash flows is recorded in exploration and evaluation assets.

(iii) Restructuring provisions
Restructuring provisions comprise lease fulfillment obligations, employee termination payments and associated costs. Termination benefits are payable when employment is terminated before normal retirement date. The Group recognises these benefits when it is demonstrably committed to terminating the employment of current employees in line with a formal plan. The restructuring provision is classified within accrued expenses.

2. Accounting policies (continued)

Segment reporting

The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (**"CODM"**). The CODM is considered to be the Board of Directors.

Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue is measured net of discounts, customs duties and royalties. Royalty income is recognised as it accrues in accordance with the terms of the overriding royalty agreements.

Other income

Other income primarily consists of income from consulting services provided by the Group.

Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions, changes in fair value of certain derivatives and impairment losses recognised on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognised in the statement of operations and comprehensive loss using the effective interest method. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

Interest income is recognised as it accrues in the statement of operations and comprehensive loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are those related to financing items.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of operations and comprehensive loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

2. Accounting policies (continued)

(Loss) / earnings per share

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

3. Critical accounting estimates and judgments

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

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

Critical judgments
(i) Exploration and evaluation assets
The carrying value of exploration and evaluation assets was $39.6 million at 31 December 2014 (2013: $74.5 million). The Group has determined that there are no indicators of impairment present in accordance with IFRS 6 "Exploration for and evaluation of mineral interests" regarding its Australian exploration and evaluation assets. It was concluded indicators of impairment existed relating to its exploration and evaluation assets in Hungary and thus impairment evaluations were performed on these assets.

Management's conclusion on the facts and circumstances regarding its Australian and Hungarian assets required judgment based on experience and the expected progress of current exploration and evaluation activities and the successful completion of farm-out projects.

The critical judgments were as follows:

Australia
On 21 August 2014, Falcon Australia completed its Farm-Out Agreement and Joint Operating Agreement with Origin and Sasol, (collectively the **"Farminees**") each farming into 35% of Falcon Australia's exploration permits in the Beetaloo Basin, Australia.

The transaction details were:

- Falcon Australia received A$20 million cash from the farminees.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal program over 2014 to 2018 inclusive.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retains a 30% interest in the Permits.
- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. This work is expected to be completed within two years (2015 – 2016).
- 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. This work programme is expected to be undertaken in 2017.
- 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. This work programme is expected to be undertaken in 2018.
- 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 next two horizontally fracture stimulated wells.

3. Critical accounting estimates and judgments (continued)

Preparations for the Group's 2015 Australian drilling programme, comprising the initial three wells in the Beetaloo Basin are at an advanced stage. 2014 saw significant progress of the agreed work programme with the Farminees with the objective of moving the project towards commerciality. A comprehensive technical evaluation undertaken in 2014 has enabled the selection of appropriate well locations to penetrate oil mature through to dry gas mature sections of the Middle Velkerri shale play. The principal objectives of the 2015 drilling programme are to:

- penetrate the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality;
- evaluate oil versus gas maturity and determine the most prospective areas and depth window;
- provide wide geographical cover of the target Middle Velkerri formation; and
- collect data points for subsequent vertical/horizontal drilling, completion and production testing.

Formation evaluation and reservoir characterisation will be carried out from these initial three wells through petrophysical interpretation, core analysis, geomechanical studies and stimulation design.

Tendering and contracting for the rig and key well services, and recruiting additional project resources are ongoing. Spudding of the first well is expected in mid-2015 subject to weather conditions as the wet season ends. Two further wells will be drilled back-to-back before the dry season ends in 2015.

The work programme supports the carrying value of the asset and there are no indicators of impairment present.

Hungary

In January 2013, the Group and Naftna industrija Srbije jsc ("**NIS**") agreed to a three-well drilling programme targeting the relatively shallow Algyő Play with a deadline for completion of work extended to the 31 December 2014 from the originally agreed date of July 2014.

Drilling operations on Kútvölgy-1, the first joint well between NIS and the Group, were completed in July 2013, the well having reached total depth ("TD") of 3,305 metres. Testing indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates thus was discontinued with the well being plugged and abandoned.

The well testing operations on the second well, Besa-D-1 were also completed. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated that well production did not meet commercial rates and the well is also being plugged and abandoned.

As of 31 December 2014, NIS has only drilled and tested two wells.

Based on the above indicators, an impairment test was completed on the assets in the Hungarian cost pool. The test demonstrated that the estimated recoverable amount of the E&E and PPE in the pool was insufficient to cover the carrying amount of these assets. The principal impairment indicator was the Company's ability to finance future exploration to commercially develop the asset. The capitalised value of the Group's Hungarian assets has been impaired by $26.5 million (which includes $5.1 million which was classified as PPE) at 31 December 2014.

Critical estimates

(ii) Going concern

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

3. Critical accounting estimates and judgments (continued)

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

4. Management of capital

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to explore and develop its petroleum and natural gas properties. The Group manages the components of shareholders' equity and makes adjustments to these components in response to the Group's business objectives and the economic climate. To maintain or adjust its capital structure, the Group may issue new common shares or debt instruments, or borrow money or acquire or convey interests in other assets. The Group does not anticipate the payment of dividends in the foreseeable future.

The Group's investment policy is to hold excess cash in highly-liquid, short-term instruments, such as rolling deposits with major European, Canadian or United States financial institutions, with initial maturity terms of zero to twelve months from the original date of acquisition, selected with regard to the Group's anticipated liquidity requirements.

5. Segment information

Based on internal reporting information, it was determined that there is one reportable segment. All of The Group's operations are in the petroleum and natural gas industry with its principal business activity being in the acquisition, exploration and development of petroleum and natural gas properties. The Group has producing petroleum and natural gas properties located in Canada and considers the results from its operations to relate to the petroleum and natural gas properties. The Group has unproven petroleum and natural gas interests in Australia, South Africa and Hungary.

The key performance measures reviewed for the segment which management believes are the most relevant information when evaluating the results of the Group are:

- the progress and extent to which farm-out agreements have been executed over the Group's acreage; and
- cash flow, capital expenditure and operating expenses.

An analysis of the geographic areas is as follows:

	Australia $'000	South Africa $'000	Hungary $'000	Other $'000	United States $'000	Total $'000
Year ended 31 December 2014						
Revenue	**-**	**-**	**-**	**26**	**-**	**26**
Net (loss) / income (i)	**(1,246)**	**(90)**	**(28,666)**	**(1,755)**	**13**	**(31,744)**
At 31 December 2014						
Capital assets (ii)	**39,619**	**-**	**-**	**103**	**-**	**39,722**

(i) Net (loss) / income attributable to equity holders of the company.
(ii) Capital assets consist of exploration & evaluation assets and property, plant and equipment.

5. Segment information (continued)

	Australia $'000	South Africa $'000	Hungary $'000	Other $'000	United States $'000	Total $'000
Year ended 31 December 2013						
Revenue	-	-	-	17	-	17
Net loss [(i)]	(870)	(106)	(1,940)	(394)	(101)	(3,411)
At 31 December 2013						
Capital assets [(ii)]	51,444	-	28,332	144	-	79,920

(i) Net loss attributable to equity holders of the company.
(ii) Capital assets consist of exploration & evaluation assets and property, plant and equipment.

6. Finance income and expense

	Notes	For the year ended 31 December **2014** **$'000**	2013 $'000
Finance income			
Interest income on bank deposits		**49**	102
Derivative gains [(i)]	21	**-**	26
Net foreign exchange gain		**-**	473
		49	601
Finance expense			
Effective interest on loans and borrowings		**-**	(2,352)
Accretion of decommissioning provisions	22	**(173)**	(158)
Net foreign exchange loss		**(626)**	-
		(799)	(2,510)
Net finance expense		**(750)**	(1,909)

(i) Derivative gains - gains which arose on the convertible debt conversion feature of the debenture repaid as at 30 June 2013.

7. Net loss per share

Basic and diluted loss per share is calculated as follows:

	For the year ended 31 December **2014** **$'000**	2013 $'000
Loss attributable to equity holders of the company	**(31,744)**	(3,411)
Weighted average number of common shares in issue - (thousands)	**921,538**	835,951
Loss / diluted loss per share	**($0.034)**	($0.004)

8. Income taxes

A reconciliation of the expected tax benefit computed by applying the combined federal and provincial Canadian tax rates of 26% (2013: 25%) to the loss before tax to the actual tax result is as follows:

	For the year ended 31 December	
	2014	2013
	$'000	$'000
Loss before tax	**(31,768)**	(3,570)
Computed income tax benefit	**(8,260)**	(893)
Increase / (decrease) in income taxes resulting from:		
Effect of foreign income tax rates	**4,753**	225
Unrecognised benefit of prior period loss carryforwards	**-**	(8)
Non-deductible stock based compensation	**51**	173
Derivatives	**(230)**	(459)
Receipt of farm – out proceeds	**5,583**	-
Impairment of interests	**2,290**	-
Other	**(152)**	(377)
Change in deferred tax benefits not recognised	**(4,035)**	1,339
Tax result	**-**	-

The Group's deductible differences included in the Group's unrecognised deferred tax asset are as follows:

	At 31 December	
	2014	2013
	$'000	$'000
Trading losses	**80,457**	125,028
E&E assets and property, plant and equipment	**175,535**	174,745
Other	**1,460**	1,668
	257,452	301,441

The Group's accumulated trading losses carryforwards as at 31 December 2014 to reduce future years' taxable income are as follows:

	2014	**2014**	2013	2013
	$'000	**Expiration**	$'000	Expiration
Canada	**30,113**	**2015 to 2034**	32,297	2015 to 2033
United States	**16,619**	**2027 to 2034**	17,385	2027 to 2033
Hungary	**32,182**	**2015 to 2020**	75,346	No expiration
Other	**1,543**	**No expiration**	-	-
	80,457		125,028	

The other deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of the tax losses, exploration and evaluation assets and other as it is not probable that future tax profit will be available against which the Group can utilise these benefits in the foreseeable future.

9. Directors' remuneration & transactions with key management personnel

Directors' remuneration is analysed as follows:

Executive directors[i]

	Year	Salary	Pension contribution	Other	Bonus	Director fees	[ii] Share based payment
		$'000	$'000	$'000	$'000	$'000	$'000
Philip O'Quigley[iii]	**2014**	**390**	**60**	**7**	**317**	**-**	**69**
	2013	365	60	6	200	-	172
Dr. György Szabó[iv]	**2014**	**134**	**-**	**16**	**-**	**-**	**-**
	2013	162	-	16	-	-	11

(i) Directors' remuneration is fixed by the Compensation Committee of the board.

(ii) Share based payments represents the non-cash expense attributable to the relevant options held by each Director. For further details on the fair value calculation of these amounts, refer to note 17.

(iii) Philip O'Quigley was paid a bonus of $63,000 in May 2014 ($200,000 in May 2013). The bonus was based on the average increase in the weighted market capitalisation of the Group from 1 May 2013 to 30 April 2014.The bonus was not determinable at 31 December 2013. A further bonus of $254,340 was paid in October 2014. This bonus is a result of the successful farm-out of the exploration permits in the Beetaloo Basin, Australia in excess of expectations.

(iv) Dr. György Szabó resigned as co-managing director of Falcon TXM effective 31 December 2014. Dr Szabó is now a non - executive director of Falcon Oil & Gas Limited.

Non - executive directors

	Director fees[i]		Share - based payments[ii]		Other	
	2014	2013	**2014**	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
John Craven [iii]	**48**	48	**85**	102	**189**	-
Daryl Gilbert	**42**	42	**9**	13	-	-
JoAchim Conrad	**36**	36	**13**	17	-	-
Gregory Smith	**42**	42	**9**	13	-	-
Maxim Mayorets (appointed 10 December 2014)	**3**	-	**-**	-	-	-
Igor Akhmerov [iv] (resigned 10 December 2014)	**40**	42	[v] **(16)**	123	-	137
David Harris (resigned 10 December 2014)	**34**	36	[v] **(2)**	14	-	-

(i) Directors' remuneration is fixed by the Compensation Committee of the board.

(ii) Share based payments represents the non-cash expense attributable to the relevant options held by each Director. For further details on the fair value calculation of these amounts, refer to note 17.

(iii) John Craven received €152,000 ($189,000) for his contribution to the successful farm-out of the exploration permits in the Beetaloo Basin, Australia in 2014.

(iv) Igor Akhmerov received €100,000 ($137,000) for consulting services to the Group in 2013.

(v) Igor Akhmerov and David Harris resigned on the 10 December 2014. As a result, the deemed share based payment charged for their unvested options reversed, thus creating the credit to the consolidated statement of operations and comprehensive loss.

9. Directors' remuneration & transactions with key management personnel (continued)

Transactions with key management comprising Directors and other senior management

Key management personnel comprise the Board of Directors and Senior Management. The remuneration of key management personnel was as follows:

	For the year ended 31 December	
	2014	2013
	$'000	$'000
Directors' fees	**245**	246
Salaries and other emoluments	**1,476**	1,295
Share based compensation	**150**	625
Defined contribution pension plans	**87**	81
	1,958	2,247

Remuneration of Directors and Senior Management includes all amounts earned and awarded which are determinable to the Company's Board of Directors and Senior Management.

Senior Management includes the Group's Chief Executive Officer, Chief Financial Officer, the Managing Director of the Group's subsidiary (Falcon TXM) and the Group's Head of Technical.

Directors' fees include Board and Committee fees. Short-term wages and benefits include salary, benefits and bonuses earned or awarded during the year. Share-based compensation includes expenses related to the Company's long-term incentive compensation.

10. Compensation expense and auditors' remuneration

(i) Compensation expense

The Company's consolidated statement of operations and comprehensive loss are prepared primarily by nature of expense, with the exception of compensation costs which are included in both exploration and evaluation expenses and general and administrative expenses, share based compensation which is reflected as a separate financial statement component and termination benefits which are reflected in restructuring costs. The following is a summary of total compensation:

	For the year ended 31 December	
	2014	2013
	$'000	$'000
Exploration and evaluation expenses	**504**	506
General and administrative expenses	**1,872**	2,078
Share based compensation	**197**	693
Termination benefits	**143**	-
	2,716	3,277

10. Compensation expense and auditors' remuneration (continued)

(ii) Auditors' remuneration
Remuneration of the auditors for the audit of the Group financial statements of Falcon Oil & Gas Ltd and other services to the Group is as follows:

	For the year ended 31 December	
	2014	2013
	$'000	$'000
Audit fees – BDO	**106**	112
Quarterly review fees – BDO	**44**	15
Tax Fees - BDO	**27**	-
All other fees – BDO[(i)]	**-**	88
	177	215

(i) Prior to the appointment of BDO as auditors, £41,500 ($63,252) was paid to PKF Accountants and Business Advisors ("**PKF**"), for works performed in relation to the Group's working capital report for its admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange. PKF subsequently merged with BDO during 2013. This amount is included in "All other fees – BDO".

The Group auditors changed during 2013. With effect from 12 November 2013, BDO LLP of London, United Kingdom ("**BDO**") was appointed as Group auditor. The incumbent, KPMG LLP of Calgary, Canada ("**KMPG**") resigned effective 12 November 2013. Fees presented in the table below are to the date of resignation. The above amounts exclude Canadian / Australian GST and European VAT as applicable. The amounts exclude the reimbursement of expenses.

	For the year ended 31 December
	2013
	$'000
Audit fees – KPMG	-
Quarterly review fees – KPMG	38
Tax fees – KPMG	-
All other fees - KPMG	14
	52

The above amounts exclude Canadian / Australian GST and European VAT as applicable. The amounts exclude the reimbursement of expenses.

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11. Exploration and Evaluation assets

	Australia $'000	**South Africa $'000**	**Hungary $'000**	**Total $'000**
At 1 January 2014	**51,444**	**-**	**23,073**	**74,517**
Additions	**6,785**	**-**	**127**	**6,912**
Farm out	**(18,610)**	**-**	**-**	**(18,610)**
Impairment	**-**	**-**	**(21,471)**	**(21,471)**
Disposals	**-**	**-**	**(41)**	**(41)**
Decommissioning provision	**-**	**-**	**(1,688)**	**(1,688)**
At 31 December 2014	**39,619**	**-**	**-**	**39,619**

	Australia $'000	South Africa $'000	Hungary $'000	Total $'000
At 1 January 2013	49,873	-	24,146	74,019
Additions	1,571	-	-	1,571
Farm out: net of costs	-	-	(916)	(916)
Disposals	-	-	(207)	(207)
Reclassification	-	-	32	32
Decommissioning provision	-	-	18	18
At 31 December 2013	51,444	-	23,073	74,517

E&E assets consist of the Group's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Group's costs incurred on E&E assets during the period.

An impairment of intangible exploration assets is recognised as an expense in the statement of operations and comprehensive loss as impairment of non-current assets.

As at 31 December 2014, the Group's Hungarian assets have been impaired to zero. Refer to note 3, critical accounting estimates and judgements for details regarding the indicators and assessment of impairment.

Beetaloo Basin, Northern Territory, Australia

Falcon Australia, Falcon's 98.1% owned subsidiary, is one of three registered holders of three exploration permits covering approximately 4.6 million gross acres (approximately 18,362 km^2), 1.4 million net acres in the Beetaloo Basin, a sparsely populated area of the Northern Territory.

On 21 August 2014, Falcon Australia completed its Farm-Out Agreement and Joint Operating Agreement (collectively "**the Agreements**") with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited ("**Origin**") and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), (collectively referred to herein as 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 program over 2014 to 2018 inclusive, detailed as follows:
  - 3 vertical exploration/stratigraphic wells and core studies;
  - 1 hydraulic fracture stimulated vertical exploration well and core study;
  - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
  - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retains a 30% interest in the Permits.
- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. This work is expected to be completed within two years (2015 - 2016).

11. Exploration and Evaluation assets (continued)

- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic with a capped expenditure of A$53 million, any cost overrun funded by each party in proportion to their working interest. This work programme is expected to be undertaken in 2017.
- 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. This work programme is expected to be undertaken in 2018.
- 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 next two horizontally fracture stimulated wells.

In addition, at completion of the Beetaloo farm out, Falcon Australia paid Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") $5 million to acquire 5%; and CR Innovations AG ("**CRIAG**") $999,000 to acquire 3% of their respective Overriding Royalties over Falcon Australia's Exploration Permits in the Beetaloo Basin. The Overriding Royalty is now at 4%. As detailed in the respective separate agreements entered into with CRIAG and the TOG Group, Falcon Australia and the Farminees have the option to reduce this royalty further to 1% by the exercise of two 5 year call options. The call options will be funded by Falcon Australia and each of the Farminees in proportion to their interest in the permits.

Renewal and Relinquishment:
Three (EP-76, EP-98 and EP-117) of Falcon Australia's then four Beetaloo Permits 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 was not considered to be 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, which was due for renewal at 31 December 2014 was surrendered as it too was not considered to be core to the unconventional play**.**

<u>Karoo Basin, South Africa</u>

Falcon holds a Technical Cooperation Permit ("**TCP**") covering an area of approximately 7.5 million acres (approximately 30,327 km^2) onshore Karoo Basin, South Africa.

The TCP grants Falcon an exclusive right to apply for an exploration right over the underlying acreage. In February 2011, a moratorium on the processing of all new applications relating to the exploration and production of shale gas in the Karoo Basin was put in place, and in April 2011 the processing of all existing applications was suspended whilst the South African Department of Mineral Resources conducted an environmental study on the effects of hydraulic stimulation and developed a system to regulate onshore exploration activities. In September 2012, the South African Government announced a decision to lift the moratorium on the processing of existing shale gas exploration permit applications following the publication of legislation, and consequently the company is awaiting exploration rights to be awarded. The proposed regulations were published in the Republic of South Africa Government Gazette for comment on 15 October 2013.

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

On the 3 November 2014 Falcon announced it has been notified by the Petroleum Agency of South Africa that a decision has been taken to proceed with processing of the Company's application for a shale gas Exploration Licence in South Africa's Karoo Basin.

11. Exploration and Evaluation assets (continued)

In December 2012, Falcon entered into a cooperation agreement (the “**Chevron Agreement**”) with Chevron Business Development South Africa Ltd. (“**Chevron**”) to jointly seek unconventional exploration opportunities in the Karoo Basin. The Chevron Agreement provides for Falcon to work exclusively with Chevron for a period of five years to jointly seek to obtain exploration rights in the Karoo Basin subject to the parties mutually agreeing participation terms applicable to each right.

As part of the Chevron Agreement, Chevron made a cash payment to Falcon of $1 million as a contribution to past costs. This was received in February 2013. All expenditures and recoveries of costs associated with the TCP and with the application for the exploration permit are charged / credited to operations as E&E expenses.

Makó Trough, Hungary

Falcon began operations in Hungary in 2005 and it is the most developed asset in the Group’s portfolio. Falcon’s subsidiary, TXM, holds the 35-year Makó Production Licence covering an area of approximately 245,775 acres (approximately 1,000 km^2) located in the Makó Trough, part of the greater Pannonian Basin of central Europe. The Makó Licence is located approximately ten kilometres from the MOL Group owned and operated Algyő field. The Makó Licence area is transected by existing gas pipelines, including a 12 kilometre gas pipeline built by Falcon in 2007, which together offer potential access to local and international markets.

The Makó Trough contains two distinct plays:

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

In January 2013, the Group agreed to a three-well drilling exploration programme with Naftna industrija Srbije jsc (“NIS”), 56% owned by Gazprom Group, to target the Algyő Play, whereby NIS made a cash payment of $1.5 million to the Group in February 2013, and agreed to drill three wells by July 2014. This deadline was extended to 31 December 2014.

As announced on the 16 May 2014, the testing of the first well, Kútvölgy-1, indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates thus was discontinued with the well, being plugged and abandoned.

Falcon announced on the 27 November 2014 that well testing operations on the second well, Besa-D-1 were completed. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated that well production did not meet commercial rates and the well is now also being plugged and abandoned.

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

An impairment test was completed on the assets in the Hungarian cost pool. The test demonstrated that the estimated recoverable amount of the E&E and PPE in the pool was insufficient to cover the carrying amount of these assets.

Refer to note 3, critical accounting estimates and judgements for details regarding the indicators and assessment of impairment.

12. Property, plant and equipment

	Canadian natural gas interests $'000	**Pipeline and facilities $'000**	**Furniture and equipment $'000**	**Total $'000**
Cost:				
At 1 January 2014	**466**	**4,234**	**2,704**	**7,404**
Additions	**-**	**-**	**9**	**9**
Decommissioning provision	**-**	**(126)**	**-**	**(126)**
At 31 December 2014	**466**	**4,108**	**2,713**	**7,287**
Depreciation:				
At 1 January 2014	**(466)**	**-**	**(1,535)**	**(2,001)**
Depreciation	**-**	**-**	**(128)**	**(128)**
Impairment	**-**	**(4,108)**	**(947)**	**(5,055)**
At 31 December 2014	**(466)**	**(4,108)**	**(2,610)**	**(7,184)**
Net book value:				
At 31 December 2014	**-**	**-**	**103**	**103**

	Canadian natural gas interests $'000	Pipeline and facilities $'000	Furniture and equipment $'000	Total $'000
Cost:				
At 1 January 2013	466	4,284	2,647	7,397
Additions	-	-	32	32
Decommissioning provision	-	7	-	7
Reclassification	-	(57)	25	(32)
At 31 December 2013	466	4,234	2,704	7,404
Depreciation:				
At 1 January 2013	(466)	-	(1,228)	(1,694)
Depreciation	-	-	(307)	(307)
At 31 December 2013	(466)	-	(1,535)	(2,001)
Net book value:				
At 31 December 2013	-	4,234	1,169	5,403

13. Trade and other receivables

		At 31 December
	2014	2013
	$'000	$'000
Non-current		
Deposits	**100**	73
Other prepayments	**4**	4
	104	77

		At 31 December
	2014	2013
	$'000	$'000
Current		
Accounts receivable	**2**	2
Deposits	**32**	41
Prepayments	**157**	266
GST/ VAT receivable	**43**	23
Other receivables	**209**	141
	443	473

14. Cash and cash on deposit

Cash and cash equivalents includes cash on hand, deposits held on call with banks, other short term highly liquid investments with initial maturities of three months or less at inception and bank overdrafts where a legal right of offset exists. Cash on deposit represents cash on deposit with a maturity in excess of three months.

		At 31 December
	2014	2013
	$'000	$'000
Cash and cash equivalents	**8,753**	8,431
Cash on deposit	**6,000**	-
	14,753	8,431

15. Restricted cash

Restricted cash includes cash held by financial institutions as collateral for ongoing Group operations.

16. Share capital

As at 31 December 2014 and 2013, the Company was authorised to issue an unlimited number of common shares, without par value. The following are the rights, preferences and restrictions attaching to the common shares:

- The Shareholders are entitled to one vote per Common Share at a shareholder meeting;
- The Company's articles do not impose any pre-emptive rights upon the transfer of the Common Shares;
- Subject to the Business Corporation Act (British Columbia, Canada) (**"BCA"**) and any regulatory or stock exchange requirements applicable to the Company, the articles of the Company do not contain any provisions relating to mandatory disclosure of an ownership interest in the Common Shares above a certain threshold;

16. Share capital (continued)

- Shareholders are entitled to receive, on a pro rata basis, such dividends, if any, as and when declared by Falcon's board of directors at its discretion from funds legally available therefor, and upon the liquidation, dissolution or winding up of Falcon 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. All rights are the same for residents or non-residents of Canada;
- Annual general meetings must be held at least once in each calendar year and not more than 15 months after the last annual reference date. The directors may, whenever they see fit, call a meeting of Shareholders. The Company must send notice of the shareholder meeting at least 21 days before the meeting. A quorum for a meeting of Shareholders is two persons who are, or who represent by proxy, Shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting. If there is only one Shareholder entitled to vote at a meeting of Shareholders, the quorum is one person who is, or who represents by proxy, that Shareholder, present in person or by proxy, may constitute the meeting;
- Pursuant to the BCA, the Company may by special resolution of the Shareholders vary or delete any special rights or restrictions attached to the Common Shares.

The following is a reconciliation of issued and outstanding common shares:

	Number of shares	**Share capital $'000**
At 1 January 2013	696,954,500	339,334
Private Placement – March 2013	120,381,973	25,672
Private Placement – March 2013 - expenses	-	(2,157)
	120,381,973	*23,515*
Shares issued to settle acquisition of Falcon Australia shares	103,401,044	19,901
Transaction costs associated with share acquisition in Falcon Australia	-	(97)
	103,401,044	*19,804*
Options exercised	800,000	200
At 31 December 2013	921,537,517	382,853
At 31 December 2014	**921,537,517**	**382,853**

On 14 March 2013 the Group announced its application for admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange, of the Company's existing share capital and an additional 120,381,973 new common shares in the capital of the Company issued pursuant to the concurrent conditional brokered private placement at a price of £0.14 (CDN$0.215) per share, raising gross proceeds of $25.7 million (£16.9 million). Trading in these shares commenced on AIM and ESM on 28 March 2013.

See note 18 for details of the acquisition of shares in Falcon Australia.

17. Share based compensation

The Group, in accordance with the policies of the TSX-V, may grant options to directors, officers, employees and consultants, to acquire up to 10% of the Group's issued and outstanding common stock. The exercise price of each option is based on the market price of the Group's stock at the date of grant, which may be discounted in accordance with TSX-V policies. The exercise price of all options granted to date has been based on the market price of the Group's stock at the date of grant, and no options have been granted at a discount to the market price. The options can be granted for a maximum term of five years. The Group records compensation expense over the vesting period based on the fair value at the grant date of the options granted. These amounts are recorded as contributed surplus.

Any consideration paid on the exercise of these options together with the related contributed surplus associated with the exercised options is recorded as share capital. The Group incurred share based expense of $0.2 million during the year ended 31 December 2014 (2013: $0.7 million).

No options were granted during 2014 (2013: 9.9 million were granted at an average exercise price of CDN$0.23 per option). The options granted during 2013 all vest 1/3 equally at the anniversary date over three years.

A summary of the Group's stock option plan as of 31 December 2014 and 31 December 2013 and changes during the periods then ended, is presented below:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Number of options	**Weighted average exercise price CDN$**	Number of options	Weighted average exercise price CDN$
Outstanding as at beginning of period	**34,952,000**	**0.16**	32,837,000	0.35
Granted	**-**	**-**	9,900,000	0.23
Expired	**-**	**-**	(6,985,000)	1.15
Forfeited	**(4,866,667)**	**0.22**	-	-
Exercised	**-**	**-**	(800,000)	0.15
Outstanding as at end of period	**30,085,333**	**0.15**	34,952,000	0.16
Exercisable as at end of period	**25,352,000**	**0.15**	21,052,000	0.14

The exercise prices of the outstanding options are as follows:

Date of grant	**Options**	**Exercise price CDN$**	**Date of Expiry**	**Weighted average contractual life remaining (years)**
30 August 2010	3,312,000	0.170	30 August 2015	0.66
23 May 2011	15,590,000	0.145	23 May 2016	1.39
1 June 2011	150,000	0.145	1 June 2016	1.42
1 May 2012	6,000,000	0.100	1 May 2017	2.33
30 April 2013	5,033,333	0.240	29 April 2018	3.33
	30,085,333			

17. Share based compensation (continued)

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

	2013
Fair value as at grant date	CDN$0.13 – CDN$0.12
Share price as at grant date	CDN$0.195
Exercise price	CDN$0.215 - CDN$0.24
Volatility	97%
Expected option life	3.82 years
Dividends	Nil
Risk - free interest rate	1.075%

18. Transaction with non-controlling interests

During 2013, Falcon acquired an additional 25.4% in its majority owned subsidiary Falcon Australia, bringing Falcon's shareholding in this subsidiary to 98.1%. The non-controlling interests in Falcon Australia were 1.9% at 31 December 2014 and 2013. The details reflecting this transaction in equity are as follows:

	Notes	Share Capital $'000	Retained deficit $'000	Equity interests of the parent $'000	Non-Controlling interests $'000	Total equity $'000
Cash consideration to Sweetpea	(i)	-	-	**-**	(3,000)	**(3,000)**
Issue of 97,860,000 shares to Sweetpea	(i)	18,830	-	**18,830**	(18,830)	**-**
Issue of 5,541,044 shares to acquire 1.2% of Falcon Australia	(ii)	1,071	-	**1,071**	(1,071)	**-**
Expenses associated with the issue of shares		(97)	-	**(97)**	-	**(97)**
Transaction with non – controlling interests	(iii)	-	(12,915)	**(12,915)**	12,915	**-**
		19,804	**(12,915)**	**6,889**	**(9,986)**	**(3,097)**

*(i) Acquisition of the 24.2% shareholding of Sweetpea Petroleum Pty Ltd ("**Sweetpea**") in Falcon Australia*
During 2013, Falcon completed an agreement with Sweetpea, a wholly-owned subsidiary of PetroHunter Energy Corporation, to acquire its 50 million shares or 24.2% interest in Falcon Australia. Falcon's shareholding in Falcon Australia increased to 200 million shares representing 96.9% of the issued share capital of Falcon Australia increasing from 150 million shares (72.7%).

The terms of the Agreement included:

- cash consideration of $3 million, together with:
- the issue of 97.9 million Falcon shares ("**New Falcon Shares**") to Sweetpea. Based on Falcon's share price, at the time the share purchase was agreed between the parties of CDN$0.20, the total value of the consideration was CDN$22.6 million ($21.8 million).

Upon completion of the Agreement, Sweetpea's shareholding in the enlarged share capital of Falcon was 10.7%. 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.

18. Transaction with non-controlling interests (continued)

(ii) Acquisition of an additional 1.2% shareholding in Falcon Australia
On 24 July 2013, Falcon offered to purchase shares from certain of the remaining shareholders in Falcon Australia. The offer comprised of 2.25 common shares in Falcon for every one Falcon Australia ordinary share held. The valuation used in this offer was the same as used in the acquisition of Sweetpea's 24.2% holding in Falcon Australia. 1.2% of Falcon Australia's shareholders accepted the offer. As a result of this transaction, 5,541,044 new Falcon common shares were issued.

(iii) Transaction with non – controlling interests
This reflects the changes of Falcon's ownership in Falcon Australia. Changes in Falcon's ownership are accounted for as equity transactions, as Falcon Australia is already a majority controlled subsidiary. These entries reflect the change in the non-controlling interests in Falcon Australia reducing from 27.3% prior to the acquisition of the Sweetpea and other minority shareholders' shares to the remaining 1.9% held by the non – controlling interests.

19. Determination of fair values

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

Cash & cash on deposit, restricted cash, accounts receivable, accounts payable and accrued expenses
The fair value of cash & cash on deposit, restricted cash, accounts receivable, accounts payable and accrued expenses is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at 31 December 2014 and 31 December 2013, the fair value of cash and cash on deposit, restricted cash, accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short term to maturity.

20. Financial Instruments and risk management

(i) Fair Value

The following tables provide fair value measurement information for financial assets and liabilities as at 31 December 2014 and 2013. The carrying value of cash and cash on deposit, restricted cash, accounts receivable, and accounts payable and accrued expenses included in the consolidated statement of financial position approximate fair value due to the short term nature of those instruments.

	31 December 2014		31 December 2013	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Financial assets:				
Cash and cash on deposit including restricted cash	**15,084**	**15,084**	9,046	9,046
Loans and receivables:				
Accounts receivable	**547**	**547**	550	550
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**1,469**	**1,469**	1,533	1,533

20. Financial Instruments and risk management (continued)

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 Fair Value Measurements
- Level 1 fair value measurements are based on unadjusted quoted market prices.

Level 2 Fair Value Measurements
- Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 Fair Value Measurements
- Level 3 fair value measurements are based on unobservable information. No financial assets or liabilities have been valued using the Level 3 fair value measurements.

	Carrying amount $'000	Fair value $'000
31 December 2014		
Financial liabilities:		
Hess warrants	514	514
31 December 2013		
Financial liabilities:		
Private placement warrants	949	949
Hess warrants	448	448

All instruments in the table are Level 2 instruments. Refer to note 21 for further details.

(ii) Financial risk disclosures

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Credit Risk
The Company's credit risk is limited to cash, receivables and restricted cash. The Group maintains cash accounts at five financial institutions. The Group periodically evaluates the credit worthiness of financial institutions. The Group believes that credit risk associated with cash is minimal. Receivables are not significant to the Group. The Group's credit risk has not changed significantly from the prior year.

Liquidity Risk
The Group has in place a planning and budgeting process to help determine the funds required to support the Group's normal operating requirements on an ongoing basis and its planned capital expenditures. The Group's overall liquidity risk and going concern is discussed in note 2.

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20. Financial Instruments and risk management (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2014	Carrying amount $'000	Contractual cash flows $'000	One year or less $'000	One to three years $'000
Non-derivative financial liabilities				
Accounts payable and accrued expenses	**1,469**	**1,469**	**1,469**	**-**
	1,469	**1,469**	**1,469**	**-**
Derivative financial liabilities:				
Hess warrants	**514**	**-**	**-**	**-**
	514	**-**	**-**	**-**

31 December 2013	Carrying amount $'000	Contractual cash flows $'000	One year or less $'000	One to three years $'000
Non-derivative financial liabilities				
Accounts payable and accrued expenses	1,533	1,533	1,533	-
	1,533	1,533	1,533	
Derivative financial liabilities:				
Private placement warrants	949	-	-	-
Hess warrants	448	-	-	-
	1,397	-	-	-

Currency Risk
Financial instruments that impact the Group's net loss due to currency fluctuations include Canadian dollar, Hungarian forint, Euro, British pound sterling and Australian dollar denominated cash and cash on deposit, accounts receivable, reclamation deposits and accounts payable.

The Company's exposure to all currencies, including the Hungarian forint, Euro, British pound sterling and Australian dollar, does not result in a significant change to total shareholders' equity and income when the respective currencies strengthen or weaken by one cent against the U.S. dollar.

Interest Rate Risk
The Company has no significant exposure to interest rate risk as the Company has no debt.

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21. Derivative liabilities

Derivative liabilities consist of the fair value of a warrant. Changes in the fair value of the derivative liabilities are recorded in the Consolidated Statement of Operations and Comprehensive Loss. The composition of the derivative liabilities as at 31 December 2014 and 2013, and the changes therein for the years then ended, are as follows:

	Convertible Debt Conversion Feature $'000	Private Placement Warrants $'000	Hess Warrants $'000	Total $'000
At 1 January 2013	26	4,505	787	5,318
Derivative gains – debt conversion feature	(26)	-	-	(26)
Derivative gains – unrealised – outstanding warrants	-	(3,556)	(339)	(3,895)
At 31 December 2013	-	949	448	1,397
Derivative (gains) / loss – unrealised – outstanding warrant	**-**	**(949)**	**66**	**(883)**
At 31 December 2014	**-**	**-**	**514**	**514**

The fair value of the derivative liabilities is analysed as current below:

	Hess Warrant $'000	Total $'000
Current	514	514
At 31 December 2014	**514**	**514**

The terms of the warrant are as follows:

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

*Proceeds from warrants are subject to the warrant holders exercising their warrants.

In April 2011, Falcon entered into a joint venture with Hess Australia (Beetaloo) Pty. Ltd ("**Hess**"). Under the terms of the agreement, Hess was granted a warrant to acquire 10,000,000 common shares in the capital of Falcon exercisable from 14 November 2011 through 13 January 2015 at an exercise price of CDN$0.19 per share (the "**Hess Warrant**"). 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. All other terms remained unchanged.

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21. Derivative liabilities (continued)

The fair value of the warrant was estimated using a Black Scholes Model with the following inputs:

	Hess Warrant 31 December 2014
Number	10,000,000
Expiry	13 January 2020
Exercise price	**CDN$0.19**
Volatility	**76.09%**
Expected warrant life	**5.04 years**
Dividends	**Nil**
Risk-free rate	**1.34%**

	Private Placement Warrants 31 December 2013	**Private Placement Warrants** 31 December 2013	**Hess Warrant** 31 December 2013
Number	33,400,000	31,887,500	10,000,000
Expiry	10 February 2014	8 April 2014	13 January 2015
Exercise price	CDN$0.18	CDN$0.18	CDN$0.19
Volatility	37.12%	59.73%	70.97%
Expected warrant life	0.11 years	0.27 years	1.04 years
Dividends	Nil	Nil	Nil
Risk-free rate	1.13%	1.13%	1.13%

22. Decommissioning Provision

A reconciliation of the decommissioning provision for the years ended 31 December 2014 and 2013 is provided below:

	2014 **$'000**	2013 $'000
Balance as at beginning of year	**11,138**	11,005
Revision to provisions – primarily movement on foreign exchange	**(1,818)**	25
Utilised	**-**	(50)
Accretion	**173**	158
Balance as at end of year	**9,493**	11,138
Non-current	**9,493**	11,138
Balance as at end of year	**9,493**	11,138

The Group's decommissioning provision results from its ownership interest in oil and natural gas assets. The total decommissioning provision is estimated based on the Group's net ownership interest in the wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years. The Group's has estimated the net present value of the decommissioning provision to be $9.5 million as at 31 December 2014 (2013: $11.1 million) based on an undiscounted total future liability of $11.1 million (2013: $13.4 million). These payments are expected to be made over approximately the next 20 years. The discount factor, being the risk free rate related to the liability, was 1.3% as at 31 December 2014 (2013: 1.3%).

23. Accounts payable and accrued expenses

	Note	At 31 December **2014** **$'000**	 2013 $'000
Current			
Accounts payable		**304**	508
Accrued expenses		**680**	905
Royalties payable		**7**	22
Restructuring provision	(i)	**478**	98
		1,469	1,533

(i) *Restructuring provision*

The movement in the provision to 31 December 2014 and 31 December 2013 is as follows:

	Notes	**Severance benefits $'000**	**Rent expense & associated costs $'000**	**Other $'000**	**Total $'000**
At 1 January 2013		192	140	34	366
Utilised during the year	(i)	(192)	(48)	(28)	(268)
At 31 December 2013		-	92	6	98
Utilised during the year		**-**	**(58)**	**(6)**	**(64)**
Increase in provision	**(ii)**	**143**	**255**	**46**	**444**
At 31 December 2014		**143**	**289**	**46**	**478**

(i) During 2012 the Group relocated its corporate headquarters from Denver, Colorado to Dublin, Ireland. The finance and executive function moved to Dublin while the primary technical function shifted to the company's Hungarian office in Budapest where the company operates exploration and producing interests. In connection with that decision, all individuals and consultants in Denver were terminated. The Denver office closed on 28 September 2012.

(ii) The Group restructured its technical function in Budapest during Quarter 4, 2014 to meet the changing needs to the Group. This has resulted in provision of $0.5 million. These provisions will be utilised in 2015.

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24. Related party transactions

Key management personnel
Disclosures with regard to key management personnel are included in note 9.

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

Dr. György Szabó Consulting Agreement
On 27 February 2009, Dr. György Szabó (former Executive Director and Co-Managing Director of Falcon –TXM) entered into a consulting agreement (the "**GS Consulting Agreement**") with Falcon TXM ("**TXM**"), pursuant to which Dr. Szabó agreed to act as Managing Director of TXM, to perform certain oil and gas services for TXM and to not compete directly or indirectly with TXM during his employment with TXM. Dr. Szabó was paid a monthly fee of $5,000. The GS Consulting Agreement contained standard confidentiality provisions. TXM could terminate the GS Consulting Agreement at any time, with or without cause, for any lawful reason whatsoever, upon TXM providing Dr. Szabó with sixty days' prior written notice. The GS Consulting Agreement expired on 31 December 2009, however Dr. Szabó continued to provide general managerial services to TXM and to receive the same monthly fee. Dr. Szabó was paid $59,000 pursuant to the GS Consulting Agreement in the year ending 31 December 2014. The GS Consulting Agreement is now terminated with an effective date of 31 December 2014.

P&S Consulting Agreement
On 4 May 2005, P&S Mérnöki Kereskedelmi-Tanácsadó Bt. ("**P&S**") entered into a consulting agreement (the "**P&S Agreement**") with TXM, pursuant to which P&S agreed to provide certain consulting services to TXM in connection with TXM's objectives of drilling wells on the Makó and Tisza licences. The P&S Agreement was amended on 28 November 2005 and further amended on 1 June 2006, 1 January 2008, 1 January 2009 and 1 April 2010. P&S is wholly-owned by a family member of Dr. György Szabó, a current Director of the Company. Under the terms of the P&S Agreement, TXM was obligated to pay P&S a monthly services fee of HUF 750,000. The P&S Agreement contained standard confidentiality provisions and provides that P&S shall not compete with TXM during the term of the P&S Agreement.

TXM could have terminated the P&S Agreement at any time, with or without cause, for any lawful reason whatsoever, upon TXM providing P&S with 30 days, prior written notice. TXM and P&S further amended the terms of the P&S Agreement by oral agreement. Pursuant to the amended P&S Agreement, P&S was paid a monthly fee of $6,057 (effective 1 February 2014) plus reasonable expenses incurred by Dr. Szabó as an employee of P&S, such amounts thereafter paid to Dr. Szabó from P&S. P&S was paid $75,000 pursuant to the agreement in the year ending 31 December 2014. The P&S Agreement is now terminated with an effective date of 31 December 2014.

Senzus Kft
On 1 January 2013, Dr. Gábor Bada verbally agreed the terms on which he was to provide geological services to TXM as a consultant. Dr. Gábor Bada (Head of Technical) will be paid a yearly consultancy fee of $20,000 in relation to this work. Dr. Bada invoices TXM through his company Senzus Kft. Dr. Gábor Bada received a consultancy fee of $20,000 through his company in the year ended 31 December 2014.

Oakridge Financial Management Inc.
The Group has engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canadian Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc.. The Group has incurred costs of approximately CDN$1,060 to Oakridge Financial Management Inc. during the year ended 31 December 2014.

25. Overriding royalties

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 to make 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.

25. Overriding royalties (continued)

On 17 December 2013, Falcon announced that Falcon Australia, had entered into an agreement (the **"TOG Agreement"**) with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire up to 7% (seven eighths) of their 8% private ORRI over Falcon Australia's Exploration Permits in the Beetaloo Basin for the following consideration:

- Falcon Australia will make a payment to TOG Group of $5 million to acquire 5% (five eighths) of their ORRI only on completion of a Beetaloo farm-out transaction;
- TOG Group will grant Falcon Australia a five year call option to acquire a further 2% (two eights) of their ORRI for a payment of $15 million;
- All ORRIs acquired under the Agreement will be immediately cancelled by Falcon Australia; and
- TOG Group will retain a 1% ORRI.

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 and to the TOG Group in the amount of $5 million. The overriding royalty is now at 4%. As detailed in the respective CRIAG agreement and TOG agreement, Falcon Australia and the Farminees have the option to reduce this royalty further to 1% by the exercise of two 5 year call options. The call options will be funded by Falcon Australia and each of the Farminees in proportion to their interest in the permits.

26. Commitments and contingencies

(i) Lease commitments

The Group has entered into lease agreements for office space in:

- Denver, Colorado, expiring April 2015;
- Budapest, Hungary expiring October 2015;
- Dublin, Ireland, with a break clause exercisable in October 2017; and

The Group is obligated to pay the following minimum future rental commitments under non-cancelable operating leases at 31 December 2014 and 31 December 2013 during the following periods:

	As at 31 December 2014 $'000	As at 31 December 2013 $'000
2014	**-**	533
2015	**298**	284
2016	**118**	120
2017	**98**	100
Thereafter	**-**	-
Total	**514**	1,037

(ii) Work program commitments

Australia - Beetaloo Basin, Northern Territory, Australia

The work commitment on the Beetaloo Basin, Northern Territory, Australia is aligned with the farm-out agreement entered into by Falcon Australia with Sasol and Origin in August 2014.

The Group is planning a 9 well drilling programme with its farm-out partners. The details are as follows:

- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. This work is expected to be completed within two years (2015 – 2016).
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic with a capped expenditure of A$53 million, any cost overrun funded by each party in proportion to their working interest. This work programme is expected to be undertaken in 2017.

26. Commitments and contingencies (continued)

- 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. This work programme is expected to be undertaken in 2018.

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

Hungary - Makó Trough, Hungary
The Group is not committed to any independent technical operations in Hungary. As at 31 December 2014, the Group had forward looking deposit commitments regarding its Hungarian exploration licences for approximately $2.4 million.

27. Standards, Interpretations and Amendments to Published Standards that are not yet effective

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

Pronouncement	Nature of change
Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' (i) (ii)	The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
Amendment to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' (i) (ii)	IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.
Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets' (i) (ii)	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.
Amendments to IAS 27 'Separate financial statements' (i) (ii)	These amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors.

27. Standards, Interpretations and Amendments to Published Standards that are not yet effective (continued)

Pronouncement	Nature of change
IFRS 15 'Revenue from Contracts with Customers' (ii) (iii)	IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.
IFRS 9 'Financial instruments' (ii) (iv)	IFRS 9 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI without recycling to the income statement. IFRS 9 contains a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes.

(i) Effective Date: Financial periods beginning on or after 1 January 2016.

(ii) Impact: These amendments are not expected to have a significant impact on the financial position of the Group.

(iii) Effective Date: Financial periods beginning on or after 1 January 2017.

(iv) Effective Date: Financial periods beginning on or after 1 January 2018.

28. Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period. The key classifications are:

- Restricted cash in the amount of $219,000 has been reclassified from "non - current asset" to "current asset".
- Derivative financial liabilities in the amount of $448,000 has been reclassed from "non – current liabilities" to "current liabilities".

29. Subsequent Events

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

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

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

After this grant, there are 34,752,000 Options outstanding, representing 3.77% of the issued and outstanding common shares of Falcon.

30. Approval of financial statements

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 28 April 2015.

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