Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended 30 September 2014 and 2013

(Presented in U.S. Dollars)

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Falcon Oil & Gas Ltd.
Interim Condensed Consolidated Statement of Operations and Comprehensive Loss
(Unaudited)

	Notes	**Three months ended 30 September 2014 $'000**	Three months ended 30 September 2013 $'000	**Nine months ended 30 September 2014 $'000**	Nine months ended 30 September 2013 $'000
Revenue					
Oil and natural gas revenue	3	**5**	4	**22**	11
		5	4	**22**	11
Expenses					
Exploration and evaluation expenses		**(191)**	(206)	**(595)**	(614)
Production and operating expenses		**(7)**	(5)	**(22)**	(17)
Depreciation	7	**(29)**	(54)	**(102)**	(261)
General and administrative expenses		**(868)**	(1,140)	**(3,118)**	(3,744)
Share based compensation	8	**(65)**	(214)	**(272)**	(487)
Foreign exchange (loss) / gain		**(127)**	197	**(182)**	197
Other income		**73**	152	**372**	491
		(1,214)	(1,270)	**(3,919)**	(4,435)
Results from operating activities		**(1,209)**	(1,266)	**(3,897)**	(4,424)
Fair value gain – outstanding warrants	11	**283**	3,844	**506**	2,520
Finance income	4	**10**	375	**36**	637
Finance expense	4	**(651)**	(41)	**(619)**	(2,463)
Net finance (expense) / income		**(641)**	334	**(583)**	(1,826)
(Loss) / income and Comprehensive (loss) / income for the period		**(1,567)**	2,912	**(3,974)**	(3,730)
Loss and comprehensive loss attributable to:					
Equity holders of the company		**(1,556)**	2,929	**(3,954)**	(3,577)
Non-controlling interests		**(11)**	(17)	**(20)**	(153)
(Loss) / income and comprehensive (loss) / income for the period		**(1,567)**	2,912	**(3,974)**	(3,730)
(Loss) / income per share attributable to equity holders of the company:					
Basic and diluted	5	(0.002 cent)	0.003 cent	(0.004 cent)	(0.004 cent)

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

Falcon Oil & Gas Ltd.
Interim Condensed Consolidated Statement of Financial Position
(Unaudited)

	Notes	**At 30 September 2014 $'000**	At 31 December 2013 $'000
Assets			
Non-current assets			
Exploration and evaluation assets	6	**61,431**	74,517
Property, plant and equipment	7	**5,274**	5,403
Trade and other receivables		**105**	77
Restricted cash		**349**	396
		67,159	80,393
Current assets			
Cash and cash on deposit	13	**18,383**	8,431
Restricted cash		**-**	219
Trade and other receivables		**465**	473
		18,848	9,123
Total assets		**86,007**	89,516
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		**382,853**	382,853
Contributed surplus		**42,735**	42,463
Retained deficit		**(354,559)**	(350,605)
		71,029	74,711
Non-controlling interests		**717**	737
Total equity		**71,746**	75,448
Liabilities			
Non-current liabilities			
Decommissioning provision	12	**10,343**	11,138
		10,343	11,138
Current liabilities			
Accounts payable and accrued expenses		**3,027**	1,533
Derivative financial liabilities	11	**891**	1,397
		3,918	2,930
Total liabilities		**14,261**	14,068
Total equity and liabilities		**86,007**	89,516

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

Falcon Oil & Gas Ltd.
Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)

	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		23,517	-	-	**23,517**	-	**23,517**
Share based compensation		-	487	-	**487**	-	**487**
Transaction with NCI		19,793	-	(12,915)	**6,878**	(9,986)	**(3,108)**
Options exercised		200	(88)	-	**112**	-	**112**
Net loss for the period		-	-	(3,577)	**(3,577)**	(153)	**(3,730)**
At 30 September 2013		382,844	42,257	(350,771)	**74,330**	743	**75,073**
At 1 January 2014		382,853	42,463	(350,605)	**74,711**	737	**75,448**
Share based compensation	8	-	272	-	**272**	-	**272**
Net loss for the period		-	-	(3,954)	**(3,954)**	(20)	**(3,974)**
At 30 September 2014		382,853	42,735	(354,559)	**71,029**	717	**71,746**

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

Falcon Oil & Gas Ltd.
Interim Condensed Consolidated Statement of Cash Flows
(Unaudited)

	Notes	Nine months ended 30 September 2014 $'000	2013 $'000
Cash flows from operating activities			
Net loss for the period		**(3,974)**	(3,730)
Adjustments for:			
Share based compensation	8	**272**	487
Depreciation	7	**102**	261
Fair value gain - outstanding warrants	11	**(506)**	(2,520)
Net finance expense	4	**583**	1,826
Other		**182**	(322)
Contribution to past costs - Chevron		**-**	1,000
Change in non-cash working capital:			
Trade and other receivables		**6**	288
Accounts payable and accrued expenses		**(764)**	(925)
Interest paid		**-**	(573)
Interest received	4	**36**	87
Net cash used in operating activities		**(4,063)**	(4,121)
Cash flows from investing activities			
Increase in cash deposits – other receivables		**(6,000)**	-
Decrease in restricted cash		**219**	-
Exploration and evaluation assets		**(6,577)**	(664)
Proceeds from farm-out transaction – NIS		**-**	1,500
Proceeds from farm-out transaction – Origin and Sasol		**20,471**	-
Property, plant and equipment		**(10)**	(29)
Net cash generated by investing activities		**8,103**	807
Cash flows from financing activities			
Proceeds from private placement		**-**	25,672
Transaction costs relating to private placement		**-**	(1,902)
Repayment of 11% debenture		**-**	(10,197)
Share acquisition in Falcon Oil & Gas Australia Ltd ("**Falcon Australia**")		**-**	(3,000)
Transaction costs associated with share acquisition in Falcon Australia		**-**	(60)
Proceeds from exercise of share options		**-**	112
Net cash from financing activities		**-**	10,625
Change in cash and cash equivalents		**4,040**	7,311
Effect of exchange rates on cash & cash equivalents		**(88)**	649
Cash and cash equivalents at beginning of period		**8,431**	2,884
Cash and cash equivalents at end of period	13	**12,383**	10,844

The notes are an integral part of these interim condensed 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, South Africa, Hungary 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

Basis of preparation and operations

These Interim Condensed Consolidated Financial Statements ("**Interim Statements**") of the Group have been prepared in accordance with IAS 34 'Interim Financial Reporting' and, except as described below, on the basis of the same accounting principles as, and should be read in conjunction with, the Consolidated Financial Statements for the year ended 31 December 2013 (pages 9 to 18) as filed on the Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com.

The following amended standard is mandatory for the first time for the financial year beginning 1 January 2014. The amended Standard does not have any significant impact on the condensed Interim Statements:

- Amendments to IAS 32, 'Offsetting financial assets and financial liabilities'

The Interim Statements are presented in United States dollars ("**$**"). All amounts, except as otherwise indicated, are presented in thousands of dollars. "**CDN$**" where referenced in the Interim Statements represents Canadian Dollars. "**£**" where referenced in the Interim Statements represents British Pounds Sterling. "**HUF**" where referenced in the Interim Statements represents Hungarian Forints. "**A$**" where referenced in the Interim Statements represents Australian Dollars.

On 21 August 2014, Falcon 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's Exploration Permits in the Beetaloo Basin, Australia (the "**Permits**"). Falcon 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 (note 6), 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 this financial information which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

3. 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**	**Ireland $'000**	**Canada $'000**	**United States $'000**	**Total $'000**
Nine months ended 30 September 2014							
Revenue	**-**	**-**	**-**	**-**	**22**	**-**	**22**
(Loss) \ income [i]	**(1,087)**	**(50)**	**(1,252)**	**8**	**(1,582)**	**9**	**(3,954)**
At 30 September 2014							
Capital assets [ii]	**39,090**	**-**	**27,502**	**113**	**-**	**-**	**66,705**

	Australia $'000	South Africa $'000	Hungary $'000	Ireland $'000	Canada $'000	United States $'000	Total $'000
Nine months ended 30 September 2013							
Revenue	-	-	-	-	11	-	11
Loss [i]	(655)	(25)	(1,378)	-	(1,414)	(105)	(3,577)
At 30 September 2013							
Capital assets [ii]	50,132	-	27,617	154	-	-	77,903

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

4. Finance income and expense

		Three months ended 30 September		Nine months ended 30 September	
	Notes	**2014 $'000**	2013 $'000	**2014 $'000**	2013 $'000
Finance income					
Interest income on bank deposits		**10**	24	**36**	87
Derivative gains (i)	11	**-**	-	**-**	26
Net foreign exchange gain		**-**	351	**-**	524
		10	375	**36**	637
Finance expense					
Effective interest on loans and borrowings		**-**	-	**-**	(2,352)
Accretion of decommissioning provisions	12	**(35)**	(41)	**(105)**	(111)
Net foreign exchange loss		**(616)**	-	**(514)**	-
		(651)	(41)	**(619)**	(2,463)
Net finance (expense) / income		**(641)**	334	**(583)**	(1,826)

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

5. (Loss) / income per share

Basic and diluted loss per share is calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
(Loss) / Income attributable to equity holders of the company	**(1,556)**	2,929	**(3,954)**	(3,577)
Weighted average number of common shares in issue - (thousands)	**921,538**	899,517	**921,538**	807,108
(Loss) / income per share	**(0.002 cent)**	0.003 cent	**(0.004 cent)**	(0.004 cent)

6. Exploration and Evaluation assets ("E&E")

	Australia $'000	**South Africa $'000**	**Hungary $'000**	**Total $'000**
At 1 January 2014	**51,444**	**-**	**23,073**	**74,517**
Additions	**6,256**	**-**	**130**	**6,386**
Farm out: net of costs	**(18,610)**	**-**	**-**	**(18,610)**
Decommissioning provision	**-**	**-**	**(862)**	**(862)**
At 30 September 2014	**39,090**	**-**	**22,341**	**61,431**

6. Exploration and Evaluation assets ("E&E") (continued)

	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, and any eventual reversal thereof, is recognised as additional depletion, depreciation and amortisation expense in the statement of operations and comprehensive loss as impairment of non-current assets.

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 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's Exploration Permits in the Beetaloo Basin, Australia (the **"Permits**"). Falcon received A$20 million cash from the Farminees.

The transaction details were:

- Falcon received A$20 million cash from the farminees.
- Origin was appointed as Operator.
- Farminees to carry Falcon in a nine well exploration and appraisal program over the next four years, 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 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 the next 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 year three (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 year four (2018).
- Farminees may reduce or surrender their interests back to Falcon only after:
  - the drilling of the first five wells or
  - the drilling and testing of the next two horizontally fracture stimulated wells.

6. Exploration and Evaluation assets ("E&E") (continued)

In addition, at completion of the Beetaloo farm out, Falcon paid Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") US$5 million to acquire 5%; and CR Innovations AG ("**CRIAG**") US$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 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 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 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**.**

Karoo Basin, South Africa

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. This Bill has been approved by the National Council of Provinces. The Bill has not been signed by the President. If it is signed, a date for the commencement of the amendments will be published in the Government Gazette. 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 MPRD 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 Bill in order to give him time to investigate the matter. If the President has reservations regarding the constitutionality of the Bill he can refer it back to the National Assembly.

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.

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.

6. Exploration and Evaluation assets ("E&E") (continued)

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, Falcon agreed to a three-well drilling exploration programme with Naftna industrija Srbije jsc ("NIS"), 56% owned by Gazprom Group, to target the Algyő Play, whereby NIS made a cash payment of $1.5 million to Falcon in February 2013, and agreed to drill three wells by July 2014. This deadline has been extended to 31 December 2014. NIS will earn, after undertaking the three-well drilling obligation, 50% of the net production revenues from the three wells drilled. In addition, NIS will have an option to acquire a right of first negotiation for future drilling operations in the Algyő Play, sharing any potential future costs and revenue with the Group, on terms to be negotiated, after paying Falcon $2.75 million. Falcon will be fully carried on the drilling and testing of three wells and will retain 100% interest in the Deep Makó Trough.

As announced on 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.

The well testing operations on the second well, Besa-D-1 are now 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 to be plugged and abandoned.

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7. 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	**-**	**-**	**10**	**10**
Decommissioning provision	**-**	**(37)**	**-**	**(37)**
At 30 September 2014	**466**	**4,197**	**2,714**	**7,377**
Depreciation:				
At 1 January 2014	**(466)**	**-**	**(1,535)**	**(2,001)**
Depreciation	**-**	**-**	**(102)**	**(102)**
At 30 September 2014	**(466)**	**-**	**(1,637)**	**(2,103)**
Net book value:				
At 30 September 2014	**-**	**4,197**	**1,077**	**5,274**

	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

8. 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 $0.3 million during the period ended 30 September 2014 (nine months ended 30 September 2013: $0.5 million).

A summary of the Group's stock option plan as of 30 September 2014 and 31 December 2013 and changes during the periods then ended, is presented below:

	Nine months ended 30 September 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
Exercised	**-**	**-**	(800,000)	0.15
Forfeited	**(3,000,000)**	**0.22**	-	-
Outstanding as at end of period	**31,952,000**	**0.16**	34,952,000	0.16
Exercisable as at end of period	**25,352,000**	**0.13**	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	0.92
23 May 2011	15,590,000	0.145	23 May 2016	1.65
1 June 2011	150,000	0.145	1 June 2016	1.67
1 May 2012	6,000,000	0.100	1 May 2017	2.59
30 April 2013	6,900,000	0.240	29 April 2018	3.58
	31,952,000			

9. 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 30 September 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.

10. Financial Instruments and risk management

The following tables provide fair value measurement information for financial assets and liabilities as at 30 September 2014 and 31 December 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.

	30 September 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	**18,732**	**18,732**	9,046	9,046
Loans and receivables:				
Accounts receivable	**570**	**570**	550	550
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**3,027**	**3,027**	1,533	1,533

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.

10. Financial Instruments and risk management (continued)

	Carrying amount $'000	Fair value $'000
30 September 2014		
Financial liabilities:		
Hess warrant	891	891
31 December 2013		
Financial liabilities:		
Private placement warrants	949	949
Hess warrant	448	448

All instruments in the table are Level 2 instruments.

11. 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 30 September 2014 and 31 December 2013, and the changes therein for the period then ended, are as follows:

	Convertible Debt Conversion Feature $'000	Private Placement Warrants $'000	Hess Warrant $'000	Total $'000
At 1 January 2013	26	4,505	787	5,318
Derivative gains - debt conversion feature	(26)	-	-	(26)
Derivative gains - outstanding warrants	-	(3,556)	(339)	(3,895)
At 31 December 2013	-	949	448	1,397
Derivative (gains) / loss – outstanding warrants	**-**	**(949)**	**443**	**(506)**
At 30 September 2014	**-**	**-**	**891**	**891**

The fair value of the derivative liabilities is analysed between current and non-current below:

	Hess Warrant $'000	Total $'000
Current	891	891
At 30 September 2014	**891**	**891**

11. Derivative liabilities (continued)

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 Warrant	13 July 2011	10,000,000	0.19	1,900	13 January 2020
Total		**10,000,000**		**1,900**	

*Proceeds from warrant are subject to the warrant 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.

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

	Hess Warrant 30 September 2014
Number	10,000,000
Expiry	13 January 2020
Exercise price	**CDN$0.19**
Volatility	**87.66%**
Expected warrant life	**5.29 years**
Dividends	**Nil**
Risk-free rate	**1.65%**

	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	31 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%

12. Decommissioning Provision

A reconciliation of the decommissioning provision for the period ended 30 September 2014 and the year ended 31 December 2013 is provided below:

	2014 $'000	2013 $'000
Balance as at beginning of period	**11,138**	11,005
Revision to provisions – primarily movement on foreign exchange	**(900)**	25
Utilised	**-**	(50)
Accretion	**105**	158
Non current	**10,343**	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 has estimated the net present value of the decommissioning provision to be $10.3 million as at 30 September 2014 (31 December 2013: $11.1 million) based on an undiscounted total future liability of $12.7 million (2013: $13.4 million). These payments are expected to be made over approximately the next 20 years with the majority of costs to be incurred between 2027 and 2031. The discount factor, being the risk free rate related to the liability, was 1.3% as at 30 September 2014 (31 December 2013: 1.3%).

13. Cash and cash on deposit

	30 September 2014 $'000	31 December 2013 $'000
Cash and cash equivalents	**12,383**	8,431
Cash on deposit	**6,000**	-
	18,383	8,431

14. Related party transactions

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

Dr. György Szabó Consulting Agreement
On 27 February 2009, Dr. György Szabó (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 is paid a monthly fee of $5,000. The GS Consulting Agreement contains standard confidentiality provisions. TXM may 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 has continued to provide general managerial services to TXM and to receive the same monthly fee. Dr. Szabó was paid $44,000 pursuant to the GS Consulting Agreement in the nine month period ending 30 September 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 contains standard confidentiality provisions and provides that P&S shall not compete with TXM during the term of the P&S Agreement.

14. Related party transactions (continued)

TXM may terminate 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 have further amended the terms of the P&S Agreement by oral agreement. Pursuant to the amended P&S Agreement, P&S is paid a monthly fee of $6,057 (effective 1 February 2014) (2013: $8,500) 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 $57,000 pursuant to the agreement in the period ending 30 September 2014.

Senzus Kft
On 1 January 2013, Dr. Gábor Bada (Head of Technical) verbally agreed to the terms on which he will provide geological services to TXM as a consultant. Dr. Bada will be paid a consultancy fee of $20,000 in 2014 in relation to this work. Dr. Bada invoices TXM through his company Senzus Kft. Dr. Bada received a consultancy fee of $15,000 through Senzus Kft in the 9 month period ended 30 September 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$910 to Oakridge Financial Management Inc. during the period ended 30 September 2014.

15. 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 reclassifications are:

- Restricted cash in the amount of $219,000 has been reclassified from “non – current asset” to “current asset”.

16. Commitments

The Group has forward looking plug and abandonment commitments regarding its Hungarian exploration licences for approximately $3 million.

17. Subsequent events

The well testing operations on the second Hungarian well, Besa-D-1 are now 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 to be plugged and abandoned. Management are currently reviewing the potential impact this decision may have on the carry value of the Hungarian capitalised assets.

18. Approval of Interim financial statements

These Interim Financial Statements were approved by the Audit Committee as delegated by the Board of Directors and authorised for issue on 26 November 2014.

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