



Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Six Months Ended 30 June 2015 and 2014

(Presented in U.S. Dollars)

Falcon Oil & Gas Ltd.
Interim Condensed Consolidated Financial Statements (Unaudited)
For Three and Six Months Ended 30 June 2015 and 2014

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Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Statement of Operations and Comprehensive Loss

(Unaudited)

		Three months ended 30 June 2015 \$'000	Three months ended 30 June 2014 \$'000	Six months ended 30 June 2015 \$'000	Six months ended 30 June 2014 \$'000
	Notes				
Revenue					
Oil and natural gas revenue	3	1	7	4	17
		1	7	4	17
Expenses					
Exploration and evaluation expenses		(76)	(206)	(452)	(404)
Production and operating expenses		(5)	(8)	(11)	(15)
Depreciation	7	(9)	(30)	(17)	(73)
General and administrative expenses		(649)	(1,231)	(1,265)	(2,250)
Share based compensation	10	(39)	(12)	(201)	(207)
Foreign exchange (loss) / gain		(196)	(22)	725	(55)
Other income		-	162	-	299
		(974)	(1,347)	(1,221)	(2,705)
Results from operating activities		(973)	(1,340)	(1,217)	(2,688)
Fair value (loss) / gain – outstanding warrants	13	(397)	(768)	(269)	223
Finance income	4	24	69	7	128
Finance expense	4	(30)	(35)	(134)	(70)
Net finance (expense) / income		(6)	34	(127)	58
Loss and comprehensive loss for the period		(1,376)	(2,074)	(1,613)	(2,407)
Loss and comprehensive loss attributable to:					
Equity holders of the company		(1,375)	(2,069)	(1,610)	(2,398)
Non-controlling interests		(1)	(5)	(3)	(9)
Loss and comprehensive loss for the period		(1,376)	(2,074)	(1,613)	(2,407)
Loss per share attributable to equity holders of the company:					
Basic and diluted	5	(0.001 cent)	(0.002 cent)	(0.002 cent)	(0.003 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)

		At 30 June 2015 \$'000	At 31 December 2014 \$'000
	Notes		
Assets			
Non-current assets			
Exploration and evaluation assets	6	39,616	39,619
Property, plant and equipment	7	86	103
Trade and other receivables		27	104
Restricted cash	8	2,282	331
		42,011	40,157
Current assets			
Cash and cash on deposit	9	10,526	14,753
Trade and other receivables		495	443
		11,021	15,196
Total assets		53,032	55,353
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		382,853	382,853
Contributed surplus		42,861	42,660
Retained deficit		(383,959)	(382,349)
		41,755	43,164
Non-controlling interests		710	713
Total equity		42,465	43,877
Liabilities			
Non-current liabilities			
Decommissioning provision	14	8,655	9,493
		8,655	9,493
Current liabilities			
Accounts payable and accrued expenses	15	1,129	1,469
Derivative financial liabilities	13	783	514
		1,912	1,983
Total liabilities		10,567	11,476
Total equity and liabilities		53,032	55,353

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 2014		382,853	42,463	(350,605)	74,711	737	75,448
Share based compensation	10	-	207	-	207	-	207
Net loss for the period		-	-	(2,398)	(2,398)	(9)	(2,407)
At 30 June 2014		382,853	42,670	(353,003)	72,520	728	73,248
At 1 January 2015		382,853	42,660	(382,349)	43,164	713	43,877
Share based compensation	10	-	201	-	201	-	201
Net loss for the period		-	-	(1,610)	(1,610)	(3)	(1,613)
At 30 June 2015		382,853	42,861	(383,959)	41,755	710	42,465

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)

		Six months ended 30 June	
	Notes	2015	2014
		\$'000	\$'000
Cash flows from operating activities			
Net loss for the period		(1,613)	(2,407)
Adjustments for:			
Share based compensation	10	201	207
Depreciation	7	17	73
Fair value loss / (gain) - outstanding warrants	13	269	(223)
Net finance expense / (income)	4	127	(58)
Effect of exchange rates on operating activities		(725)	55
Change in non-cash working capital:			
Trade and other receivables		26	(279)
Accounts payable and accrued expenses		90	113
Restructuring spend		(368)	-
Interest received	4	7	26
Net cash used in operating activities		(1,969)	(2,493)
Cash flows from investing activities			
Increase in restricted cash		(1,991)	-
Exploration and evaluation assets		-	(538)
Property, plant and equipment		-	(6)
Net cash used in investing activities		(1,991)	(544)
Change in cash and cash equivalents		(3,960)	(3,037)
Effect of exchange rates on cash & cash equivalents		(267)	119
Cash and cash equivalents at beginning of period		8,753	8,431
Cash and cash equivalents at end of period	9	4,526	5,513

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

Falcon Oil & Gas Ltd.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) For Three and Six Months Ended 30 June 2015 and 2014

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**”); 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 going concern

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 2014 (pages 9 to 17) as filed on the Canadian Securities Administrator’s System for Electronic Document Analysis and Retrieval (“**SEDAR**”) at www.sedar.com.

There are no amended accounting standards or new accounting standards that have any significant impact on these interim financial statements applicable as at 1 January 2015.

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.

The Group’s interim financial statements have been prepared on a going concern basis which assumes that 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.

Falcon Oil & Gas Ltd.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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3. Segment information (continued)

An analysis of the geographic areas is as follows:

	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
Six months ended 30 June 2015					
Revenue	-	-	-	4	4
Net loss ⁽ⁱ⁾	(395)	(521)	(180)	(514)	(1,610)
At 30 June 2015					
Capital assets ⁽ⁱⁱ⁾	39,616	-	-	86	39,702

	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
Six months ended 30 June 2014					
Revenue	-	-	-	17	17
Net loss income ⁽ⁱ⁾	(1,212)	(101)	(906)	(179)	(2,398)
At 30 June 2014					
Capital assets ⁽ⁱⁱ⁾	51,712	-	28,371	122	80,205

(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

	Notes	Three months ended 30 June		Six months ended 30 June	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Finance income					
Interest income on bank deposits		3	9	7	26
Net foreign exchange gain		21	60	-	102
		24	69	7	128
Finance expense					
Accretion of decommissioning provisions	14	(30)	(35)	(61)	(70)
Net foreign exchange loss		-	-	(73)	-
		(30)	(35)	(134)	(70)
Net finance (expense) / income		(6)	34	(127)	58

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For Three and Six Months Ended 30 June 2015 and 2014****5. Net loss per share**

Basic and diluted loss per share is calculated as follows:

	Three months ended 30 June		Six months ended 30 June	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Loss attributable to equity holders of the company	(1,375)	(2,069)	(1,610)	(2,398)
Weighted average number of common shares in issue - (thousands)	921,538	921,538	921,538	921,538
Loss / diluted loss per share	(0.001 cent)	(0.002 cent)	(0.002 cent)	(0.003 cent)

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

	Australia \$'000	South Africa \$'000	Hungary \$'000	Total \$'000
At 1 January 2015	39,619	-	-	39,619
Disposals	(3)	-	-	(3)
At 30 June 2015	39,616	-	-	39,616

	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

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 was recognised as an expense in the statement of operations and comprehensive loss as impairment of non-current assets at 31 December 2014. At 31 December 2014, the Group's Hungarian assets were impaired to zero.

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 km²), 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").

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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6. Exploration and Evaluation (“E&E”) assets (continued)

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).
- 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.

On 15 July 2015, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 is the first of Falcon’s fully funded and uncapped, 2015 three well drilling and evaluation programme in the Beetaloo Basin. The 2015 three well programme is the commencement of the nine well exploration and appraisal programme planned from 2015 to 2018.

Kalala S-1 is targeting the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. It is located within exploration permit 98, with access from the existing Carpentaria Highway, and will be drilled to a total depth of approximately 2,800 meters. Rig 185, an ATS 400 has been commissioned from Saxon Energy Services Australia Pty. Ltd, a Schlumberger company. It is estimated that drilling will take approximately 35 to 50 days.

The principal objectives of the 2015 three well 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 further information on the aerial distribution 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.

Karoo Basin, South Africa

Falcon holds a Technical Cooperation Permit (“TCP”) covering an area of approximately 7.5 million acres (approximately 30,327 km²) onshore Karoo Basin, South Africa. The TCP grants Falcon an exclusive right to apply for an exploration right over the underlying acreage.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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6. Exploration and Evaluation (“E&E”) 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 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.

On 3 November 2014, Falcon announced it was notified by the Petroleum Agency of South Africa that a decision had been taken to proceed with processing of the Company’s application for a shale gas exploration licence in South Africa’s Karoo Basin.

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. Falcon’s subsidiary, TXM, holds the 35-year Makó Production Licence covering an area of approximately 245,775 acres (approximately 1,000 km²) 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.

An impairment test was completed on the assets in the Hungarian cost pool at 31 December 2014. The test demonstrated that the estimated recoverable amount of the E&E and property, plant and equipment in the pool was insufficient to cover the carrying amount of these assets. The carrying value of the assets is nil at 30 June 2015 and 31 December 2014.

On 26 January 2015, the Group announced the expiry of the extension granted to Naftna Industrija Srbije jsc (“**NIS**”), regarding their three-well drilling programme in Falcon’s Makó Trough Licence in Hungary. The July 2014 deadline for completion of drilling and testing of the three-well programme was extended by Falcon to 31 December 2014 to enable NIS to fulfil its three well obligation. NIS has only drilled and tested two wells. Falcon is currently evaluating, and will pursue, all options available to the Company to derive shareholder value as NIS has not fulfilled its commitments under the Agreement.

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Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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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 2015	466	4,108	2,713	7,287
Disposals	-	-	(2,523)	(2,523)
At 30 June 2015	466	4,108	190	4,764
Depreciation and impairment:				
At 1 January 2015	(466)	(4,108)	(2,610)	(7,184)
Depreciation	-	-	(17)	(17)
Disposals	-	-	2,523	2,523
At 30 June 2015	(466)	(4,108)	(104)	(4,678)
Net book value:				
At 30 June 2015	-	-	86	86

	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 and impairment:				
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

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For Three and Six Months Ended 30 June 2015 and 2014****8. Restricted cash**

Restricted cash includes cash held by financial institutions as collateral for ongoing Group operations. During the six month period, the Group placed \$2.0 million on deposit for the benefit of the Hungarian mining authority as a security deposit with regards the Group's decommissioning obligations.

	30 June 2015 \$'000	31 December 2014 \$'000
Restricted cash	2,282	331
	2,282	331

9. 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.

	30 June 2015 \$'000	31 December 2014 \$'000
Cash and cash equivalents	4,526	8,753
Cash on deposit	6,000	6,000
	10,526	14,753

10. 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 period ended 30 June 2015 (2014: \$0.2 million).

Six million options were granted in the period to 30 June 2015 at an average exercise price of CDN\$0.15 (2014: no options were granted during period ended 30 June 2014). Three million of the options will vest equally at the grant anniversary date over three years; with the remaining 3 million options having vested at the time of grant.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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10. Share based compensation (continued)

A summary of the Group's stock option plan as of 30 June 2015 and 31 December 2014 and changes during the periods then ended, is presented below:

	Six months ended 30 June 2015		Year ended 31 December 2014	
	Number of options	Weighted average exercise price CDN\$	Number of options	Weighted average exercise price CDN\$
Outstanding as at beginning of period	30,085,333	0.15	34,952,000	0.16
Granted	6,000,000	0.15	-	-
Forfeited	(1,333,333)	0.21	(4,866,667)	0.22
Outstanding as at end of period	34,752,000	0.15	30,085,333	0.15
Exercisable as at end of period	30,074,223	0.15	25,352,000	0.15

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	0.17
23 May 2011	15,190,000	0.145	23 May 2016	0.90
1 June 2011	150,000	0.145	1 June 2016	0.92
1 May 2012	6,000,000	0.100	1 May 2017	1.84
30 April 2013	4,100,000	0.240	29 April 2018	2.83
26 January 2015	6,000,000	0.150	25 January 2020	4.58
	34,752,000			

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

	2015
Fair value as at grant date	CDN\$0.05
Share price as at grant date	CDN\$0.11
Exercise price	CDN\$0.15
Volatility	75.35%
Expected option life	3.88 years
Dividends	Nil
Risk - free interest rate	0.788%

11. 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 methods outlined below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash and cash on deposit, restricted cash, accounts receivable, accounts payable and accrued expenses

The fair value of cash and 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 June 2015 and 31 December 2014, 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.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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12. Financial Instruments and risk management

The following tables provide fair value measurement information for financial assets and liabilities as at 30 June 2015 and 31 December 2014. 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.

	Carrying value \$'000	30 June 2015 Fair value \$'000	31 December 2014 Carrying value \$'000	31 December 2014 Fair value \$'000
Financial assets:				
Cash and cash on deposit including restricted cash	12,808	12,808	15,084	15,084
<i>Loans and receivables:</i>				
Accounts receivable	522	522	547	547
Financial Liabilities:				
<i>Other financial liabilities</i>				
Accounts payable and accrued expenses	1,129	1,129	1,469	1,469

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
30 June 2015		
Financial liabilities:		
Hess warrant	783	783
31 December 2014		
Financial liabilities:		
Hess warrant	514	514

The instrument in the table above is a Level 2 instrument.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
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13. 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 June 2015 and 31 December 2014, and the changes therein for the period then ended, are as follows:

	Private Placement Warrants \$'000	Hess Warrant \$'000	Total \$'000
At 1 January 2014	949	448	1,397
Derivative (gains) / loss – outstanding warrant	(949)	66	(883)
At 31 December 2014 – current	-	514	514
Derivative loss – outstanding warrant	-	269	269
At 30 June 2015 – current	-	783	783

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 holder exercising their warrant.

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

	Hess Warrant 30 June 2015	Hess Warrant 31 December 2014
Number	10,000,000	10,000,000
Expiry	13 January 2020	13 January 2020
Exercise price	CDN\$0.19	CDN\$0.19
Volatility	76.53%	76.09%
Expected warrant life	4.54 years	5.04 years
Dividends	Nil	Nil
Risk-free rate	0.73%	1.34%

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For Three and Six Months Ended 30 June 2015 and 2014****14. Decommissioning provision**

A reconciliation of the decommissioning provision for the period ended 30 June 2015 and the year ended 31 December 2014 is provided below:

	2015	2014
	\$'000	\$'000
Balance as at beginning of period	9,493	11,138
Revision to provisions – primarily movement on foreign exchange	(899)	(1,818)
Accretion	61	173
Non – current; Balance at end of period	8,655	9,493

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 \$8.7 million as at 30 June 2015 (31 December 2014: \$9.5 million). This is based on an undiscounted total future liability of \$10.1 million (31 December 2014: \$11.1 million). These payments are expected to be made over approximately the next 13 years. The discount factor, being the risk free rate related to the liability, was 1.3% as at 30 June 2015 and 31 December 2014.

15. Accounts payable and accrued expenses

	30 June	31 December
	2015	2014
	\$'000	\$'000
Current		
Accounts payable	356	304
Accrued expenses	655	680
Royalties payable	8	7
Restructuring provision	110	478
	1,129	1,469

16. Related party transactions

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

Senzus Kft

On 1 January 2013, Senzus Kft. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The agreement was terminated on 28 April 2015. A separate agreement was entered into on 28 April 2015. Senzus Kft. was paid a consultancy fee of \$23,745 during the six month period ended 30 June 2015.

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\$473 to Oakridge Financial Management Inc. during the period ended 30 June 2015.

Falcon Oil & Gas Ltd.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For Three and Six Months Ended 30 June 2015 and 2014**

17. 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.
- 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.

18. Comparatives

Comparative figures have been adjusted where necessary to confirm with changes in presentation or where additional analysis has been provided in the current period. The key reclassifications are within Note 3, Segmental Information; \$839,000, has been reanalyzed in the six months ended 30 June 2014 from segment "Other" to the Australia, South Africa and Hungary segments.

19. 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 August 2015.

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