Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended 30 September 2013 and 2012

(Presented in U.S. Dollars)

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

	Notes	**Three months ended 30 September 2013 $'000**	Three months ended 30 September 2012 $'000	**Nine months ended 30 September 2013 $'000**	Nine months ended 30 September 2012 $'000
Revenue					
Oil and natural gas revenue	3	**4**	1	**11**	12
		4	1	**11**	12
Expenses					
Exploration and evaluation expenses		**(206)**	(447)	**(614)**	(1,561)
Production and operating expenses		**(5)**	(18)	**(17)**	(30)
Depreciation	8	**(54)**	(57)	**(261)**	(295)
General and administrative expenses		**(1,140)**	(1,670)	**(3,744)**	(4,917)
Share based compensation	10	**(214)**	(763)	**(487)**	(2,204)
Restructuring expenses		**-**	(62)	**-**	(674)
Foreign exchange gain		**197**	-	**197**	-
Other income / (expense)		**152**	(40)	**491**	198
		(1,270)	(3,057)	**(4,435)**	(9,483)
Results from operating activities		**(1,266)**	(3,056)	**(4,424)**	(9,471)
Fair value gain / (loss) – outstanding warrants	15	**3,844**	(4,578)	**2,520**	(3,956)
Finance income	4	**375**	15	**637**	53
Finance expense	4	**(41)**	(1,299)	**(2,463)**	(3,267)
Net finance income / (expense)		**334**	(1,284)	**(1,826)**	(3,214)
Net income / (loss) and comprehensive income / (loss) for the period		**2,912**	(8,918)	**(3,730)**	(16,641)
Net income / (loss) and comprehensive income / (loss) attributable to:					
Equity holders of the company	3	**2,929**	(8,891)	**(3,577)**	(16,453)
Non - controlling interests		**(17)**	(27)	**(153)**	(188)
Net income / (loss) and comprehensive income / (loss) for the period		**2,912**	(8,918)	**(3,730)**	(16,641)
Net income / (loss) per share attributable to equity holders of the company:					
Basic and diluted	5	**0.003 cent**	(0.013 cent)	**(0.004 cent)**	(0.024 cent)

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

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

	Notes	**At 30 September 2013 $'000**	At 31 December 2012 $'000
Assets			
Non - current assets			
Exploration and evaluation assets	7	**72,456**	74,019
Property, plant and equipment	8	**5,447**	5,703
Trade and other receivables		**562**	1,265
		78,465	80,987
Current assets			
Cash and cash equivalents		**10,844**	2,884
Restricted cash		**387**	386
Trade and other receivables		**592**	1,756
		11,823	5,026
Total assets		**90,288**	86,013
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	9	**382,844**	339,334
Contributed surplus		**42,257**	41,858
Retained deficit		**(350,771)**	(334,279)
		74,330	46,913
Non - controlling interests		**743**	10,882
Total equity		**75,073**	57,795
Liabilities			
Non - current liabilities			
Derivative financial liabilities	15	**638**	5,292
Decommissioning provision	16	**10,236**	10,955
		10,874	16,247
Current liabilities			
Accounts payable and accrued expenses		**2,207**	3,122
Convertible debentures	14	**-**	8,773
Derivative financial liabilities	15	**2,134**	26
Decommissioning provision	16	**-**	50
		4,341	11,971
Total liabilities		**15,215**	28,218
Total equity and liabilities		**90,288**	86,013

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

Falcon Oil & Gas Ltd.
Interim Condensed Consolidated Statements 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 2012		339,006	39,654	(316,838)	**61,822**	11,156	**72,978**
Options exercised		165	(73)	-	**92**	-	**92**
Share based compensation		-	2,204	-	**2,204**	-	**2,204**
Net loss for the period		-	-	(16,453)	**(16,453)**	(188)	**(16,641)**
At 30 September 2012		339,171	41,785	(333,291)	**47,665**	10,968	**58,633**
At 1 January 2013		339,334	41,858	(334,279)	**46,913**	10,882	**57,795**
Private placement	9	23,517	-	-	**23,517**	-	**23,517**
Share based compensation	10	-	487	-	**487**	-	**487**
Transaction with NCI	11	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**

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

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

	Notes	Nine months ended 30 September 2013 $'000	2012 $'000
Cash flows from operating activities			
Net loss for the period		**(3,730)**	(16,641)
Adjustments for:			
Share based compensation		**487**	2,204
Depreciation		**261**	295
Fair value (gain) / loss – outstanding warrants		**(2,520)**	3,956
Net finance expense		**1,826**	3,214
Other		**(322)**	(636)
Contribution to past costs - Chevron	7	**1,000**	-
Change in non-cash working capital	6	**(637)**	1,308
Interest paid		**(573)**	(579)
Interest received	4	**87**	53
Net cash used in operating activities		**(4,121)**	(6,826)
Cash flows from investing activities			
Exploration and evaluation assets		**(664)**	(2,827)
Proceeds from farm-out transaction – NIS	7	**1,500**	-
Property, plant and equipment		**(29)**	(21)
Net cash generated by / (used in) investing activities		**807**	(2,848)
Cash flows from financing activities			
Proceeds from private placement – March 2013		**25,672**	-
Transaction costs relating to private placement – March 2013		**(1,902)**	-
Repayment of 11% debenture	14	**(10,197)**	-
Share acquisition in Falcon Oil & Gas Australia Ltd ("**Falcon Australia**")	11	**(3,000)**	-
Transaction costs associated with share acquisition in Falcon Australia		**(60)**	-
Increase in restricted cash		**-**	(268)
Proceeds from exercise of share options		**112**	90
Net cash from / (used in) financing activities		**10,625**	(178)
Change in cash and cash equivalents		**7,311**	(9,852)
Effect of exchange rates on cash & cash equivalents		**649**	48
Cash and cash equivalents at beginning of period		**2,884**	15,358
Cash and cash equivalents at end of period		**10,844**	5,554

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, 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 Inc. ("**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).

2. Accounting policies

Basis of preparation and operations

These Interim Condensed Consolidated Financial Statements ("**Interim Statements**") of Falcon Oil & Gas Ltd and its subsidiaries ("**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 2012 (pages 8 to 16) as filed on the Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

The following interpretations or amended standards are mandatory for the first time for the financial year beginning 1 January 2013, and are either not relevant to the Group or they do not have any significant impact on the condensed interim Statements:

- Amendments to IAS 1, 'Presentation of financial statements'
- Amendments to IAS 19, 'Employee benefits'
- Amendments to IFRS 7 'Financial Instruments' on Asset and Liability Offsetting
- IFRS 10, 'Consolidated Financial Statements'
- IFRS 11, 'Joint arrangements'
- IFRS 12, 'Disclosure of Interest in Other Entities'
- IAS 27 (revised), 'Separate Financial Statements'
- IAS 28 (revised), 'Investments in Associates and Joint Ventures'
- Improvements to IFRSs (2009 - 2011)

Consistent with the interim statements for the six months ended 30 June 2013, the adoption of the requirements of IFRS 13 'Fair value Measurement' has resulted in additional disclosures in these interim statements.

The Interim Statements are presented in United States dollars ("**$**"), the functional currency of all Group entities. All amounts, except as otherwise indicated, are presented in thousands of dollars. CDN$ 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.

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) (note 9). Trading in these shares commenced on AIM and ESM on 28 March 2013.

Having given due consideration to the cash requirements of the Group and having raised capital in the gross amount of $25.7 million (note 9), 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.

2. Accounting policies (continued)

Notwithstanding the Group's recent fundraising, the Group's ability to continue as a going concern is dependent upon either its ability to raise additional capital from the sale of additional common shares or other debt or equity instruments, asset dispositions, having producing assets and/ or entering into joint arrangement with third parties.

3. Segment information

Based on internal reporting information, it was determined that there is one reportable segment. All of the Company'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 Company 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 Company 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 2013							
Revenue	**-**	**-**	**-**	**-**	**11**	**-**	**11**
Net 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**

	Australia $'000	South Africa $'000	Hungary $'000	Ireland $'000	Canada $'000	United States $'000	Total $'000
Nine months ended 30 September 2012							
Revenue	-	-	6	-	6	-	12
Net loss (i)	(570)	(109)	(3,353)	-	(10,051)	(2,370)	(16,453)
At 30 September 2012							
Capital assets (ii)	49,423	-	27,921	6	-	-	77,350

(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	
		2013	2012	**2013**	2012
	Notes	**$'000**	$'000	**$'000**	$'000
Finance income					
Interest income on bank deposits		**24**	15	**87**	53
Derivative gains [i]	15	**-**	-	**26**	-
Net foreign exchange gain		**351**	-	**524**	-
		375	15	**637**	53
Finance expense					
Effective interest on loans and borrowings		**-**	(1,015)	**(2,352)**	(2,689)
Derivative losses [i]		**-**	(198)	**-**	(212)
Accretion of decommissioning provisions	16	**(41)**	(53)	**(111)**	(170)
Net foreign exchange loss		**-**	(33)	**-**	(196)
		(41)	(1,299)	**(2,463)**	(3,267)
Net finance income / (expense)		**334**	(1,284)	**(1,826)**	(3,214)

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

5. Net income / (loss) per share

Basic and diluted income / (loss) per share is calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Income / (loss) attributable to equity holders of the company	**2,929**	(8,891)	**(3,577)**	(16,453)
Weighted average number of common shares in issue - (thousands)	**899,517**	695,850	**807,108**	695,720
Income / (loss) per share	**0.003 cent**	(0.013 cent)	**(0.004 cent)**	(0.024 cent)

For the 3 months ended 30 September 2013, the effect of the dilutive share options and warrants do not result in a material change to the income / (loss) per share.

6. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Nine months ended 30 September	
	2013	2012
	$'000	$'000
Trade and other receivables	**288**	1,059
Inventories	**-**	145
Accounts payable and accrued expenses	**(925)**	104
	(637)	1,308

7. Exploration and evaluation assets

	Australia $'000	**South Africa $'000**	**Hungary $'000**	**Total $'000**
At 1 January 2013	**49,873**	**-**	**24,146**	**74,019**
Additions	**259**	**-**	**103**	**362**
Farm out: net of costs	**-**	**-**	**(1,009)**	**(1,009)**
Disposals	**-**	**-**	**(110)**	**(110)**
Reclassification	**-**	**-**	**32**	**32**
Decommissioning provision	**-**	**-**	**(838)**	**(838)**
At 30 September 2013	**50,132**	**-**	**22,324**	**72,456**

	Australia $'000	South Africa $'000	Hungary $'000	Total $'000
At 1 January 2012	48,221	-	22,756	70,977
Additions	1,652	-	-	1,652
Disposals	-	-	(140)	(140)
Decommissioning provision	-	-	1,530	1,530
At 31 December 2012	49,873	-	24,146	74,019

Exploration and evaluation ("**E&E**") assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's costs incurred on E&E assets during the period.

Beetaloo Basin, Northern Territory, Australia

Falcon Australia, Falcon's 98.1% owned subsidiary, is the registered holder of four exploration permits covering approximately 7 million acres (approximately 28,000 km^2) in the Beetaloo Basin, a sparsely populated area of the Northern Territory.

In April 2011, Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty. Ltd ("**Hess**") whereby Hess agreed to collect seismic data over an area covering three of the four Beetaloo Exploration Permits, excluding an area covering approximately 100,000 acres (approximately 405 km^2) surrounding the Shenandoah-1 well-bore (the "**Hess Area of Interest**").

Under the terms of the E&P Agreement, Hess paid $20.0 million to the Company (i) as a participation fee for the exclusive right to conduct operations for the exploration, drilling, development and production of hydrocarbons from the Hess Area of Interest and (ii) as consideration for warrants 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 Warrants**") (note 15). The $20.0 million of gross proceeds received from Hess in 2011 were reduced by closing costs of $1.3 million resulting in net proceeds of $18.7 million which were allocated $17.7 million to the farm-out transaction and $1 million to the warrants.

In November 2011, Falcon Australia, in accordance with the work program for Permit EP 98, completed the testing and stimulation of the Shenandoah-1 well at its sole cost, and the well has been plugged and abandoned. Falcon Australia provided Hess with the data obtained from these activities, and Hess paid Falcon Australia $2.0 million.

Since the date of the agreement, during 2011 and 2012, Hess acquired 3,490 kilometres of 2D seismic data.

Hess had the option, valid until 30 June 2013, to acquire a 62.5% working interest in the Hess Area of Interest by committing to drill and evaluate five exploration wells at Hess' sole cost, one of which must have been a horizontal well. All costs to plug and abandon the five exploration wells would have been borne solely by Hess. Hess had also agreed, subject to proceeding to the development phase, to carry Falcon Australia, on a first development well, up to a gross cost of $10 million. Costs to drill wells after the five exploration wells and the first development well (and after the initial $10 million) would have been borne 62.5% by Hess and 37.5% by Falcon Australia.

7. Exploration and evaluation assets (continued)

However, Hess did not elect to commit to drilling the five wells required to earn their interest in the Beetaloo permits by the agreed deadline. Therefore, in accordance with the Participation Agreement (as amended), which granted Hess the first extension, failure to elect on time meant that Hess forfeited their right to earn 62.5% in three of the Beetaloo permits. Hess had requested a one month extension to allow them sufficient time to conclude a farm-out deal with a third party, which they described as one of the largest oil and gas companies in the world. However, the late request by Hess to defer the election date again was unanimously rejected by Falcon's Board for reasons outlined below:

- Falcon retains a 100% working interest in the four Beetaloo exploration permits which puts Falcon in a stronger position going forward.
- Hess has transferred a perpetual, royalty-free and irrevocable licence to Falcon over the 3,490 kilometres of seismic acquired by them.
- The initial interpretation of 3,490 kilometres of new seismic data, acquired at no cost to Falcon, was extremely encouraging.
- Identification of a shale oil play in the northern part of the permits in addition to the shale gas and conventional plays throughout the acreage.
- Unsolicited interest from major oil and gas companies.
- Falcon had already granted Hess an extension from August 2012 to June 2013.

Results of Seismic Program in Beetaloo Basin, Australia
As noted above, under the terms of the 2011 Participation Agreement, in 2011 and 2012 Hess acquired 3,490 kilometres of 2D seismic data and invested approximately $80 million during that period at no cost to Falcon. The seismic database, along with existing well data, provides a very solid platform to extrapolate a detailed structural and stratigraphic model for the main parts of the Beetaloo Basin.

All the necessary elements of a productive unconventional and conventional petroleum system have been identified in multiple shales and sand reservoirs, and it is now clear that the Beetaloo Basin is an active petroleum system.

Three hydrocarbon plays have been identified:

- the shale gas potential in the basin centre;
- a shale oil play in the northern part of the permits; and
- conventional prospects throughout the acreage.

Recent interpretation of the seismic database mapped out several conventional drilling targets that are promising areas of hydrocarbons accumulation in the form of structural closures and traps.

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.

In December 2012, Falcon entered into a cooperation 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 exploration and evaluation expenses.

7. Exploration and evaluation assets (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 a three-well drilling exploration programme with Naftna industrija Srbije jsc ("**NIS**"), owned 56% by Gazprom Group, to target the Algyő Play ("**the agreement area**"). NIS made a cash payment of $1.5 million to Falcon in 2013, which was recorded net of costs of $0.5 million against the carrying amount of the E&E asset in Hungary; and agreed to drill three exploration wells by July 2014. NIS will earn 50% of net production from the first three wells, and has the option to participate in any future drilling on terms to be negotiated, after paying Falcon $2.75 million. Falcon is to be fully carried on the drilling and testing of the initial three exploration wells.

If NIS does not fulfill their drilling obligations under the participation agreement, TXM will retain 100% interest in the Agreement Area.

If the NIS earn-in is completed, NIS and TXM will share future exploration, appraisal and development costs and production in the Agreement Area in accordance with their participating interests held under a joint operating agreement.

Drilling operations on the first joint well between NIS and Falcon, Kútvölgy-1 well were completed in July 2013, the well having reached total depth ("**TD**") of 3,305 metres. As anticipated, the top of the Algyő Formation was encountered at 2,985 metres; the well then penetrating an alternating sequence of sandstones, siltstones and shales over a gross interval of 320 metres to TD, with gas shows throughout. Two conventional cores were taken and extensive wireline logs were run. As planned the well has been cased to TD and is now suspended. No operational problems or accidents occurred during drilling. Technical evaluation of the well results has been concluded and preparations are now well underway to complete and test this well. The process will involve conventional testing of up to 8 gas bearing intervals as a first phase. A decision on whether hydraulic fracturing of the penetrated tight sands is required will be made upon evaluating the results of conventional flow tests. We expect technical operations to commence in January 2014.

Preparations for drilling the second well have commenced. Actual drilling operations on this well are expected to start in Quarter 1 2014.

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8. Property, plant and equipment

	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	**-**	**-**	**29**	**29**
Decommissioning provision	**-**	**8**	**-**	**8**
Reclassification	**-**	**(57)**	**25**	**(32)**
At 30 September 2013	**466**	**4,235**	**2,701**	**7,402**
Depreciation:				
At 1 January 2013	**(466)**	**-**	**(1,228)**	**(1,694)**
Depreciation	**-**	**-**	**(261)**	**(261)**
At 30 September 2013	**(466)**	**-**	**(1,489)**	**(1,955)**
Net book value:				
At 30 September 2013	**-**	**4,235**	**1,212**	**5,447**

	Canadian natural gas interests $'000	Pipeline and facilities $'000	Furniture and equipment $'000	Total $'000
Cost:				
At 1 January 2012	466	3,831	3,385	7,682
Additions	-	-	375	375
Decommissioning provision	-	453	-	453
Disposals	-	-	(1,113)	(1,113)
At 31 December 2012	466	4,284	2,647	7,397
Depreciation:				
At 1 January 2012	(466)	-	(1,992)	(2,458)
Depreciation	-	-	(342)	(342)
Disposals	-	-	1,106	1,106
At 31 December 2012	(466)	-	(1,228)	(1,694)
Net book value:				
At 31 December 2012	-	4,284	1,419	5,703

9. Share capital

At 30 September 2013 and 31 December 2012, the Company was authorised to issue an unlimited number of common shares, without par value.

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

	Number of shares	Share capital $'000
At 1 January 2012	695,654,500	339,006
Options exercised	1,000,000	274
Issuance of shares to a former officer	300,000	54
At 31 December 2012	**696,954,500**	**339,334**
Private Placement – March 2013	**120,381,973**	**25,672**
Private Placement – March 2013 - expenses	**-**	**(2,155)**
	120,381,973	*23,517*
Shares issued to settle acquisition of Falcon Australia shares	**103,401,044**	**19,901**
Transaction costs associated with share acquisition in Falcon Australia	**-**	**(108)**
	103,401,044	*19,793*
Options exercised	**800,000**	**200**
At 30 September 2013	**921,537,517**	**382,844**

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 11 for details of the acquisition of shares in Falcon Australia.

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 Company's issued and outstanding common stock. The exercise price of each option is based on the market price of the Company'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 Company's stock at the date of grant, and no options have been granted at a discount to the market price. 6.9 million options granted in April 2013 were granted at a premium to the market price on the day of grant. The remaining 3 million granted in April 2013 were granted with reference to the market price. The options can be granted for a maximum term of five years. The Company 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 $0.5 million during the nine months ended 30 September 2013 (nine months ended 30 September 2012: $2.2 million).

During the nine months ended 30 September 2013, the Company granted 9.9 million options at an average exercise price of CDN$0.23 (nine months ended 30 September 2012: 6 million at CDN$0.10) per option. The options granted during 2013 and 2012 all vest 1/3 equally at the anniversary date over three years.

10. Share based compensation (continued)

A summary of the Group's stock option plan as of 30 September 2013 and 31 December 2012 and changes during the periods then ended, is presented below:

	9 months ended 30 September 2013		Year ended 31 December 2012	
	Number of options	**Weighted average exercise price CDN$**	Number of options	Weighted average exercise price CDN$
Outstanding as at beginning of period	**32,837,000**	**0.35**	29,764,500	0.41
Granted	**9,900,000**	**0.23**	6,000,000	0.10
Expired	**(6,985,000)**	**1.15**	(978,333)	0.73
Forfeited	**-**	**-**	(949,167)	1.10
Exercised	**(800,000)**	**0.15**	(1,000,000)	0.15
Outstanding as at end of period	**34,952,000**	**0.16**	32,837,000	0.35
Exercisable as at end of period	**21,052,000**	**0.14**	21,323,667	0.48

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	1.92
23 May 2011	15,590,000	0.145	23 May 2016	2.65
1 June 2011	150,000	0.145	1 June 2016	2.67
1 May 2012	6,000,000	0.100	1 May 2017	3.59
30 April 2013	3,000,000	0.215	29 April 2018	4.58
30 April 2013	6,900,000	0.240	29 April 2018	4.58
	34,952,000			

The fair value of the granted options in 2013 and 2012 was estimated using a Black Scholes model with the following inputs:

	2013	2012
Fair value as at grant date	**CDN$0.13 – CDN$0.12**	CDN$0.08
Share price as at grant date	**CDN$0.195**	CDN$0.10
Exercise price	**CDN$0.215 – CDN$0.24**	CDN$0.10
Volatility	**97%**	104%
Expected option life	**3.82 years**	5 years
Dividends	**Nil**	Nil
Risk-free interest rate	**1.075%**	1.59%

11. Transaction with non - controlling interests

During Quarter 3 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 30 September 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 Sweeetpea	(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		(108)	-	**(108)**	-	**(108)**
Transaction with non – controlling interests	(iii)	-	(12,915)	**(12,915)**	12,915	**-**
		19,793	**(12,915)**	**6,878**	**(9,986)**	**(3,108)**

*(i) Acquisition of the 24.2% shareholding of Sweetpea Petroleum Pty Ltd ("**Sweetpea**") in Falcon Australia*
On 24 May 2013, Falcon announced it executed a conditional agreement with Sweetpea, a wholly-owned subsidiary of PetroHunter Energy Corporation (the "**Agreement**"), to acquire its 50 million shares or 24.2% interest in Falcon Australia (the "**share purchase**"). Prior to this announcement Falcon owned 150 million shares in Falcon Australia representing 72.7% of its issued share capital. Upon completion of the Agreement, Falcon's shareholding in Falcon Australia increased to 200 million shares representing 96.9% of the issued share capital of Falcon Australia.

The terms of the Agreement included:

- cash consideration of $3 million, together with:
- the issue of 97.86 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 will be 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.

(ii) Acquisition of an additional 1.2% shareholding in Falcon Australia
On 24 July 2013, Falcon announced it 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 offer was valid until 22 August 2013. 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 the remaining shareholding 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.

12. Determination of fair values

A number of the Company'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.

12. Determination of fair values (continued)

(i) *Cash & cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses*
The fair value of cash & cash equivalents, 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 2013 and 31 December 2012, the fair value of accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short term to maturity.

(ii) *Derivatives*
The fair value of the conversion feature embedded in the convertible note, the private placement and Hess warrants and the incentive stock options granted to employees is calculated using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of incentive stock options that vest.

(iii) *Convertible debentures*
The fair value of host contract of the convertible debentures was determined for disclosure purposes by calculating the present value of the expected future cash flow using the market rate of interest at the relevant reporting date.

13. Financial Instruments and risk management

The following tables provide fair value measurement information for financial assets and liabilities as at 30 September 2013 and 31 December 2012. The carrying value of cash & cash equivalents, restricted cash, accounts receivable, 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 2013		31 December 2012	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Financial assets:				
Cash and cash equivalents including restricted cash	**11,231**	**11,231**	3,270	3,270
Loans and receivables:				
Accounts receivable	**1,154**	**1,154**	3,021	3,021
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**2,207**	**2,207**	3,122	3,122
Convertible debentures	**-**	**-**	8,773	11,014

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.

13. Financial Instruments and risk management (continued)

	Carrying amount $'000	Fair value $'000
30 September 2013		
Financial liabilities:		
Private placement warrants	**2,134**	**2,134**
Hess warrants	**638**	**638**
31 December 2012		
Financial liabilities:		
Conversion feature – convertible debt	26	26
Private placement warrants	4,505	4,505
Hess warrants	787	787

All instruments in the table are Level 2 instruments.

14. Convertible debentures

On 30 June 2009, the Company completed an offering of 11,910 units at a price of $865 (CDN$1,000) per unit (the "**Offering**"). Each unit consisted of one 11% convertible unsecured debenture in the principal amount of $779 (CDN$900) (each, a "**debenture**") that matured on the fourth anniversary of its issuance (30 June 2013) pursuant to the terms of a trust indenture dated 30 June 2009 (the "**Trust Indenture**"), and 250 common shares in the capital of Falcon (the "**Unit Shares**") (collectively, a "**Unit**"). The debentures accrued interest at an annual rate of 11% calculated and payable semi-annually in arrears on 1 January and 1 July in each year. The debentures were unsecured direct obligations of the Company.

The debentures and all outstanding interest were repaid at maturity on 30 June 2013.

15. Derivative financial liabilities

Derivative financial liabilities consist of the fair value of the private placement warrants and the fair value of the Hess warrants. Changes in the fair value of the derivative liabilities are recorded in the Consolidated Statements of Operations and Comprehensive loss. The composition of the derivative liabilities as at 30 September 2013 and 31 December 2012, and the changes therein for the periods then ended, are as follows:

	Convertible Debt Conversion Feature $'000	Private Placement Warrants $'000	Hess Warrants $'000	Total $'000
At 1 January 2012	41	2,652	621	3,314
Derivative gains - debt conversion feature	(15)	-	-	(15)
Derivative loss - unrealised – outstanding warrants	-	1,853	166	2,019
At 31 December 2012	26	4,505	787	5,318
Derivative gains – debt conversion feature	**(26)**	**-**	**-**	**(26)**
Derivative gains – unrealised – outstanding warrants	**-**	**(2,371)**	**(149)**	**(2,520)**
At 30 September 2013	**-**	**2,134**	**638**	**2,772**

15. Derivative financial liabilities (continued)

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

	Convertible Debt Conversion Feature $'000	**Private Placement Warrants $'000**	**Hess Warrants $'000**	**Total $'000**
Non-current	-	-	638	638
Current	-	2,134	-	2,134
At 30 September 2013	**-**	**2,134**	**638**	**2,772**

The terms of the warrants are as follows:

Warrant issue	**Date of issue**	**Number of common shares issuable under warrants**	**Exercise Price CDN$**	**Proceeds from warrants* CDN$'000**	**Expiry date**
Private placement	10 February 2011	33,400,000	0.18	6,012	10 February 2014
Private placement	8 April 2011	31,887,500	0.18	5,740	8 April 2014
Hess	13 July 2011	10,000,000	0.19	1,900	13 January 2015
Total		**75,287,500**		**13,652**	

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

16. Provisions

(i) *Decommissioning provision*
A reconciliation of the decommissioning provision for the period ended 30 September 2013 and the year ended 31 December 2012 is provided below:

	2013 $'000	2012 $'000
Balance as at beginning of period	**11,005**	8,813
Revision to provisions	**(830)**	1,983
Utilised	**(50)**	-
Accretion	**111**	209
Balance as at end of period	**10,236**	11,005
Non-current	**10,236**	10,955
Current	**-**	50
Balance as at end of period	**10,236**	11,005

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 $10.2 million as at 30 September 2013 (31 December 2012: $11.0 million) based on an undiscounted total future liability of $13.3 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 1.89% as at 30 September 2013 (31 December 2012: 1.3%).

16. Provisions (continued)

(ii) *Restructuring provision*
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 well established 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.

The movement in the provision to 31 December 2012 and 30 September 2013 is as follows:

	Severance & health benefits $'000	**Rent expense net of sublease $'000**	**Other $'000**	**Total $'000**
At 1 January 2012	-	-	-	-
Charged during the year	567	176	49	792
Utilised	(375)	(36)	(15)	(426)
At 31 December 2012	192	140	34	366
Utilised during the period	**(192)**	**(39)**	**(14)**	**(245)**
At 30 September 2013	**-**	**101**	**20**	**121**

17. 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 $45,000 pursuant to the GS Consulting Agreement in the nine months ending 30 September 2013.

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. 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.

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 $8,500 (effective 1 January 2013) (2012: $10,000) 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 $76,500 pursuant to the agreement in the nine months ending 30 September 2013.

In addition, a car is provided to Dr. Szabó.

17. Related party transactions (continued)

Dr. Gábor Bada
On 28 December 2012, Dr. Bada entered into an employment agreement (the "**Bada Employment Agreement**") with TXM pursuant to which Dr. Bada agreed, subject to certain conditions, to perform certain geological services for TXM. In addition, on 1 January 2013, Dr. Bada verbally agreed the terms on which he was to provide geological services to TXM as a consultant. Dr. Bada will be paid a consultancy fee of $20,000 in 2013 in relation to this work.

The Bada Employment Agreement contains standard confidentiality provisions. Dr. Gábor Bada received a consultancy fee of $15,000 through his company in the nine months ending 30 September 2013.

March 2013 Private placement
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 Falcon 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) (the "**Placing**"). The following related parties participated in the Placing:

Directors	**Previous shareholding**	**March 2013 Placing participation**	**Enlarged shareholding***	**% of enlarged share capital***
John Craven	500,000	2,357,143	2,857,143	0.35%
Philip O'Quigley	1,000,000	513,696	1,513,696	0.19%
Gregory Smith	420,000	50,000	470,000	0.06%
David Harris	-	150,000	150,000	0.02%

*immediately post-Placing.

April 2013 Stock Options
On 30 April 2013 a total of 3 million options were granted at an exercise price of CDN$0.215 to Eoin Grindley, Falcon's Chief Financial Officer pursuant to the terms of his employment contract. A further 5.5 million options were granted at an exercise price of CDN$0.24 (a 23% premium to the closing share price on 30 April 2013) to the following Falcon directors:

Directors	**Number of options granted**	**Total number of Options held after grant**
John Craven	2,000,000	3,100,000
Igor Akhmerov	2,500,000	2,900,000
Daryl Gilbert	200,000	2,900,000
Gregory Smith	200,000	1,000,000
Joachim Conrad	300,000	1,000,000
David Harris	300,000	300,000

A further 1.4 million options were granted to employees of Falcon at an exercise price of CDN$0.24 on 30 April 2013.

Oakridge Financial Management Inc.
The Group has engaged Oakridge Financial Management Inc. to assist in liasing with the Canadian Revenue Agency to ensure employment taxes applicable on payments made to Canadian residents are appropriately calculated and remitted. 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$1,000 to Oakridge Financial Management Inc. during the nine months ended 30 September 2013.

18. 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 impact of the fair value movements associated with the issue of warrants included in "Net finance income / (expense)" during the three and nine months ended 30 September 2012, has been reclassified to the face of the statement of operations and comprehensive loss as "Fair value gain / (loss) – outstanding warrants".

19. Subsequent events

On 1 November 2013, Falcon announced that its subsidiary, Falcon Australia, had entered into an agreement with CR Innovations AG ("**CRIAG**") to acquire its 4% Overriding Royalty Interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin ("**the CRIAG Agreement**"). The 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% of the ORRI;
- Second payment to be made upon completion of a farm-out deal in Australia;
- CRIAG has granted Falcon Australia a five year call option to acquire the remaining 1% for $5 million; and
- All ORRI's acquired under the CRIAG Agreement have been immediately cancelled by Falcon Australia.

20. Approval of Interim Statements

These Interim Statements were approved by the Audit Committee as delegated by the Board of Directors and authorised for issue on 27 November 2013.

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