Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Six Months Ended 30 June 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 June 2013 $'000**	Three months ended 30 June 2012 $'000	**Six months ended 30 June 2013 $'000**	Six months ended 30 June 2012 $'000
Revenue					
Oil and natural gas revenue	3	**4**	5	**7**	11
		4	5	**7**	11
Expenses					
Exploration and evaluation expenses		**(210)**	(429)	**(408)**	(1,114)
Production and operating expenses		**(7)**	(7)	**(12)**	(12)
Depletion and depreciation	8	**(62)**	(171)	**(207)**	(238)
General and administrative expenses		**(1,419)**	(1,702)	**(2,604)**	(3,247)
Share based compensation	10	**(178)**	(913)	**(273)**	(1,441)
Restructuring expenses		**-**	(612)	**-**	(612)
Other income		**102**	101	**339**	238
		(1,774)	(3,733)	**(3,165)**	(6,426)
Results from operating activities		**(1,770)**	(3,728)	**(3,158)**	(6,415)
Fair value gain / (loss) – outstanding warrants	14	**557**	(1,108)	**(1,324)**	622
Finance income	4	**268**	18	**262**	38
Finance expense	4	**(951)**	(1,054)	**(2,422)**	(1,968)
Net finance expense		**(683)**	(1,036)	**(2,160)**	(1,930)
Net loss and comprehensive loss for the period		**(1,896)**	(5,872)	**(6,642)**	(7,723)
Net loss and comprehensive loss attributable to:					
Equity holders of the company	3	**(1,805)**	(5,802)	**(6,506)**	(7,562)
Non-controlling interests		**(91)**	(70)	**(136)**	(161)
Net loss and comprehensive loss for the period		**(1,896)**	(5,872)	**(6,642)**	(7,723)
Net Loss per share attributable to equity holders of the company:					
Basic and diluted	5	**(0.002 cent)**	(0.008 cent)	**(0.009 cent)**	(0.011 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 June 2013 $'000	At 31 December 2012 $'000
Assets			
Non-current assets			
Exploration and evaluation assets	7	**72,777**	74,019
Property, plant and equipment	8	**5,482**	5,703
Trade and other receivables		**584**	1,265
		78,843	80,987
Current assets			
Cash and cash equivalents		**14,713**	2,884
Restricted cash		**377**	386
Trade and other receivables		**542**	1,756
		15,632	5,026
Total assets		**94,475**	86,013
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	9	**362,840**	339,334
Contributed surplus		**42,131**	41,858
Retained deficit		**(340,785)**	(334,279)
		64,186	46,913
Non-controlling interests		**10,746**	10,882
Total equity		**74,932**	57,795
Liabilities			
Non-current liabilities			
Derivative financial liabilities	14	**1,117**	5,292
Decommissioning provision	15	**10,833**	10,955
		11,950	16,247
Current liabilities			
Accounts payable and accrued expenses		**2,094**	3,122
Convertible debentures	13	**-**	8,773
Derivative financial liabilities	14	**5,499**	26
Decommissioning provision	15	**-**	50
		7,593	11,971
Total liabilities		**19,543**	28,218
Total equity and liabilities		**94,475**	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 $'000	Total equity $'000
At 1 January 2012		339,006	39,654	(316,838)	**61,822**	11,156	**72,978**
Share based compensation		-	1,441	-	**1,441**	-	**1,441**
Net loss for the period		-	-	(7,562)	**(7,562)**	(161)	**(7,723)**
At 30 June 2012		339,006	41,095	(324,400)	**55,701**	10,995	**66,696**
At 1 January 2013		339,334	41,858	(334,279)	**46,913**	10,882	**57,795**
Private placement	9	23,506	-	-	**23,506**	-	**23,506**
Share based compensation		-	273	-	**273**	-	**273**
Net loss for the period		-	-	(6,506)	**(6,506)**	(136)	**(6,642)**
At 30 June 2013		362,840	42,131	(340,785)	**64,186**	10,746	**74,932**

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)

		Six months ended 30 June	
		2013	2012
	Notes	**$'000**	$'000
Cash flows from operating activities			
Net loss for the period		**(6,642)**	(7,723)
Adjustments for:			
Share based compensation		**273**	1,441
Depletion and depreciation		**207**	238
Fair value (loss) / gain – outstanding warrants		**1,324**	(622)
Net finance expense		**2,160**	1,930
Other		**-**	(180)
Contribution to past costs - Chevron	7	**1,000**	-
Change in non-cash working capital	6	**(693)**	1,649
Interest paid		**(573)**	(579)
Interest received	4	**63**	38
Net cash used in operating activities		**(2,881)**	(3,808)
Cash flows from investing activities			
Exploration and evaluation assets		**(560)**	(2,676)
Proceeds from farm-out transaction – NIS	7	**1,500**	-
Property, plant and equipment		**(26)**	(21)
Net cash generated by / (used in) investing activities		**914**	(2,697)
Cash flows from financing activities			
Proceeds from private placement – March 2013		**25,672**	-
Transaction costs relating to private placement – March 2013		**(1,897)**	-
Repayment of 11% debenture	13	**(10,197)**	-
Net cash from financing activities		**13,578**	-
Change in cash and cash equivalents		**11,611**	(6,505)
Effect of exchange rates on cash & cash equivalents		**218**	(62)
Cash and cash equivalents at beginning of period		**2,884**	15,358
Cash and cash equivalents at end of period		**14,713**	8,791

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

1. General Information

Falcon Oil & Gas Ltd. 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 the Toronto Stock 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).

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 three months ended 31 March 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 the 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 properties and interests in Australia, South Africa and Hungary.

The key performance measures reviewed for the segment which management believe is 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**
Six months ended 30 June 2013							
Revenue	**-**	**-**	**-**	**-**	**7**	**-**	**7**
Net loss (i)	**(362)**	**(13)**	**(938)**	**-**	**(5,086)**	**(107)**	**(6,506)**
At 30 June 2013							
Capital assets (ii)	**49,837**	**-**	**28,258**	**164**	**-**	**-**	**78,259**

	Australia $'000	South Africa $'000	Hungary $'000	Ireland $'000	Canada $'000	United States $'000	Total $'000
Six months ended 30 June 2012							
Revenue	-	-	6	-	5	-	11
Net loss (i)	(428)	(136)	(2,054)	-	(2,907)	(2,037)	(7,562)
At 30 June 2012							
Capital assets (ii)	48,798	-	27,874	-	-	11	76,683

(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 June		Six months ended 30 June	
		2013	2012	**2013**	2012
	Notes	**$'000**	$'000	**$'000**	$'000
Finance income					
Interest income on bank deposits		**57**	18	63	38
Derivative gains [(i)]	14	**24**	-	26	-
Net foreign exchange gain		**187**	-	173	-
		268	18	262	38
Finance expense					
Effective interest on loans and borrowings		**(917)**	(867)	(2,352)	(1,674)
Derivative losses [(i)]		**-**	(40)	-	(14)
Accretion of decommissioning provisions	15	**(34)**	(61)	(70)	(117)
Net foreign exchange loss		**-**	(86)	-	(163)
		(951)	(1,054)	(2,422)	(1,968)
Net finance expense		**(683)**	(1,036)	(2,160)	(1,930)

[(i)] Derivative gains / (losses) - gains / (losses) which arose on the convertible debt conversion feature

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	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Loss attributable to equity holders of the company	**(1,805)**	(5,802)	**(6,506)**	(7,562)
Weighted average number of common shares in issue - (thousands)	**817,336**	695,655	**760,138**	695,655
Loss per share	**(0.002 cent)**	**(0.008 cent)**	**(0.009 cent)**	**(0.011 cent)**

All outstanding options and warrants are excluded from the calculation of net loss per share as the effect of these assumed exercises is anti-dilutive.

6. Supplemental cash flow information

Changes in non-cash working capital is comprised of:

	Six months ended 30 June	
	2013	2012
	$'000	$'000
Trade and other receivables	**214**	1,236
Inventories	**-**	76
Accounts payable and accrued expenses	**(907)**	337
	(693)	1,649

7. Exploration and evaluation assets

	Australia $'000	**South Africa $'000**	**Hungary $'000**	**Total $'000**
At 1 January 2013	**49,873**	**-**	**24,146**	**74,019**
Farm out: net of costs	**-**	**-**	**(1,009)**	**(1,009)**
Disposals	**(35)**	**-**	**(46)**	**(81)**
Reclassification	**-**	**-**	**32**	**32**
Decommissioning provision	**-**	**-**	**(184)**	**(184)**
At 30 June 2013	**49,838**	**-**	**22,939**	**72,777**

	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 96.9% 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, 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 "**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 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**"). 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 $0.9 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 this agreement, Hess has spent in excess of $55 million acquiring 3,490 kilometres of 2D seismic data which is currently being interpreted.

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, which the Board believed would have been the total gross cost of this well. 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 km of seismic acquired by them.
- The initial interpretation of 3,490 km of new seismic data, acquired at no cost to Falcon, is 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.

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.

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.

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.

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 Algyö 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 Algyö 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.

7. Exploration and evaluation assets (continued)

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 Algyö Play ("**the agreement area**"). NIS has 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.

Initial drilling operations on the first joint well between NIS and Falcon, Kútvölgy-1 well have now ceased. As planned the well has been cased to total depth ("TD") and is now suspended while further technical evaluation is undertaken prior to carrying out an appropriate testing programme later this year. No operational problems or accidents occurred during drilling. The location of the second of the three well programme will be decided after a full evaluation of the Kútvölgy-1 well results. Operations on the second well are expected to commence in Quarter 4 this year.

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	**-**	**-**	**26**	**26**
Decommissioning provision	**-**	**(8)**	**-**	**(8)**
Reclassification	**-**	**(57)**	**25**	**(32)**
At 30 June 2013	**466**	**4,219**	**2,698**	**7,383**
Depletion, depreciation and amortisation:				
At 1 January 2013	**(466)**	**-**	**(1,228)**	**(1,694)**
Depletion and depreciation	**-**	**-**	**(207)**	**(207)**
At 30 June 2013	**(466)**	**-**	**(1,435)**	**(1,901)**
Net book value:				
At 30 June 2013	**-**	**4,219**	**1,263**	**5,482**

8. Property, plant and equipment (continued)

	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
Depletion, depreciation and amortisation:				
At 1 January 2012	(466)	-	(1,992)	(2,458)
Depletion and 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 June 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**
Transaction costs associated with placing – March 2013	**-**	**(2,166)**
At 30 June 2013	**817,336,473**	**362,840**

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 the 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.

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 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. The options granted in April 2013 were granted at a premium to the market price on the day of grant. 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 $0.3 million during the six months ended 30 June 2013 (six months ended 30 June 2012: $1.4 million).

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

	6 months ended 30 June 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	**-**	-	(1,000,000)	0.15
Outstanding as at end of period	**35,752,000**	0.16	32,837,000	0.35
Exercisable as at end of period	**21,852,000**	0.14	21,323,667	0.48

During the six months ended 30 June 2013, the Company granted 9.9 million options at an average exercise price of CDN$0.23 (six months ended 30 June 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.

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	2.17
23 May 2011	16,390,000	0.145	23 May 2016	2.90
1 June 2011	150,000	0.145	1 June 2016	2.92
1 May 2012	6,000,000	0.100	1 May 2017	3.84
30 April 2013	3,000,000	0.210	29 April 2018	4.92
30 April 2013	6,900,000	0.240	29 April 2018	4.92
	35,752,000			

10. Share based compensation (continued)

The fair value of the granted options 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. 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.

(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 June 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.

12. Financial Instruments and risk management

The following tables provide fair value measurement information for financial assets and liabilities as at 30 June 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 June 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	**15,090**	**15,090**	3,270	3,270
Loans and receivables:				
Accounts receivable	**1,126**	**1,126**	3,021	3,021
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**2,094**	**2,094**	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.

	Carrying amount $'000	**Fair value $'000**
30 June 2013		
Financial liabilities:		
Private placement warrants	**5,499**	**5,499**
Hess warrants	**1,117**	**1,117**
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.

13. 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.

14. Derivative financial liabilities

Derivative financial liabilities consist of the fair value of the convertible debt conversion feature, 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 June 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 loss – unrealised – outstanding warrants	**-**	**994**	**330**	**1,324**
At 30 June 2013	**-**	**5,499**	**1,117**	**6,616**

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	-	-	1,117	1,117
Current	-	5,499	-	5,499
At 30 June 2013	**-**	**5,499**	**1,117**	**6,616**

14. Derivative financial liabilities (continued)

The terms of the warrants are as follows:

Date of Issue	Number of Common Shares Issuable under warrants	Exercise Price	Expiry date
10 February 2011 – Private placement	33,400,000	CDN$0.18	10 February 2014
8 April 2011 – Private placement	31,887,500	CDN$0.18	8 April 2014
13 July 2011 – Hess warrants	10,000,000	CDN$0.19	13 January 2015

15. Provisions

(i) *Decommissioning provision*
A reconciliation of the decommissioning provision for the period ended 30 June 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	**(192)**	1,983
Utilised	**(50)**	-
Accretion	**70**	209
Balance as at end of period	**10,833**	11,005
Non-current	**10,833**	10,955
Current	**-**	50
Balance as at end of period	**10,833**	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 $10.8 million as at 30 June 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 1.53% as at 30 June 2013 (31 December 2012: 1.3%).

(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.

15. Provisions (continued)

The movement in the provision to 31 December 2012 and 30 June 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)**	**(25)**	**(6)**	**(223)**
At 30 June 2013	**-**	**115**	**28**	**143**

16. 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 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 $30,000 pursuant to the GS Consulting Agreement in the six months ending 30 June 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 $51,000 pursuant to the agreement in the six months ending 30 June 2013.

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

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.

16. Related party transactions (continued)

The Bada Employment Agreement contains standard confidentiality provisions. Dr. Gábor Bada received a consultancy fee of $10,000 through his company in the six months ending 30 June 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 the 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 deemed 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

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 the company during the 6 months ended 30 June 2013.

17. 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 expense" during the three and six months ended 30 June 2012, previously shown within, has been reclassified to the face of the statement of operations and comprehensive loss as "Fair value gain / (loss) – outstanding warrants".

18. Subsequent events

On 24 May 2013, the Group announced that it has executed a conditional agreement with Sweetpea Petroleum Pty Ltd, a wholly-owned subsidiary of PetroHunter Energy Corporation ("**Sweetpea**") the ("**Agreement**"), to acquire its 50 million shares or 24.22% interest in Falcon Oil & Gas Australia Limited ("FOGA") (the "**Share Purchase**"). Prior to this announcement Falcon owned 150 million shares in FOGA representing 72.68% of its issued share capital. Upon completion of the Agreement, Falcon's shareholding in FOGA increased to 200 million shares representing 96.90% of the issued share capital of FOGA. The terms of the Agreement included a 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. 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.

On 24 July 2013, the Group announced that it has offered to purchase shares from certain of the remaining shareholders in Falcon Oil & Gas Australia Ltd. The offer was comprised of 2.25 common shares in Falcon for every one FOGA ordinary share held. This offer was valid until 22 August 2013. The valuation used in this offer was the same as used in the recently completed acquisition of Sweetpea's 24.2% holding in FOGA. The maximum of Falcon Shares that may be issued in connection with this offer is 11,009,783. The offer is subject to TSX Venture Exchange approval. This transaction is in the process of closing.

19. 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 28 August 2013.

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