Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three Months Ended 31 March 2014 and 2013

(Presented in U.S. Dollars)

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

	Notes	Three months ended 31 March 2014 $'000	Three months ended 31 March 2013 $'000
Revenue			
Oil and natural gas revenue	3	**10**	3
		10	3
Expenses			
Exploration and evaluation expenses		**(198)**	(198)
Production and operating expenses		**(7)**	(5)
Depreciation	8	**(43)**	(145)
General and administrative expenses		**(1,019)**	(1,185)
Share based compensation	9	**(195)**	(95)
Foreign exchange loss		**(33)**	-
Other income		**137**	237
		(1,358)	(1,391)
Results from operating activities		**(1,348)**	(1,388)
Fair value gain / (loss) – outstanding warrants	12	**991**	(1,881)
Finance income	4	**59**	8
Finance expense	4	**(35)**	(1,485)
Net finance income \ (expense)		**24**	(1,477)
Loss and comprehensive loss for the period		**(333)**	(4,746)
Loss and comprehensive loss attributable to:			
Equity holders of the company		**(329)**	(4,701)
Non-controlling interests		**(4)**	(45)
Loss and comprehensive loss for the period		**(333)**	(4,746)
Loss per share attributable to equity holders of the company:			
Basic and diluted	5	**($0.000)**	($0.007)

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

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

	Notes	At 31 March 2014 $'000	At 31 December 2013 $'000
Assets			
Non-current assets			
Exploration and evaluation assets	7	**74,720**	74,517
Property, plant and equipment	8	**5,366**	5,403
Trade and other receivables		**78**	77
Restricted cash		**604**	615
		80,768	80,612
Current assets			
Cash and cash equivalents		**6,879**	8,431
Trade and other receivables		**742**	473
		7,621	8,904
Total assets		**88,389**	89,516
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		**382,853**	382,853
Contributed surplus		**42,658**	42,463
Retained deficit		**(350,934)**	(350,605)
		74,577	74,711
Non-controlling interests		**733**	737
Total equity		**75,310**	75,448
Liabilities			
Non-current liabilities			
Derivative financial liabilities	12	**-**	448
Decommissioning provision	13	**11,155**	11,138
		11,155	11,586
Current liabilities			
Accounts payable and accrued expenses		**1,518**	1,533
Derivative financial liabilities	12	**406**	949
		1,924	2,482
Total liabilities		**13,079**	14,068
Total equity and liabilities		**88,389**	89,516

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

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

	Notes	Share capital $'000	Contributed surplus $'000	Retained deficit $'000	Equity interests of the parent $'000	Non-Controlling interests ("NCI") $'000	Total equity $'000
At 1 January 2013		339,334	41,858	(334,279)	**46,913**	10,882	**57,795**
Private Placement		23,544	-	-	**23,544**	-	**23,544**
Share based compensation		-	95	-	**95**	-	**95**
Net loss for the period		-	-	(4,701)	**(4,701)**	(45)	**(4,746)**
At 31 March 2013		362,878	41,953	(338,980)	**65,851**	10,837	**76,688**
At 1 January 2014		382,853	42,463	(350,605)	**74,711**	737	**75,448**
Share based compensation	9	-	195	-	**195**	-	**195**
Net loss for the period		-	-	(329)	**(329)**	(4)	**(333)**
At 31 March 2014		382,853	42,658	(350,934)	**74,577**	733	**75,310**

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

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

		Three months ended 31 March	
		2014	2013
	Notes	**$'000**	$'000
Cash flows from operating activities			
Net loss for the period		**(333)**	(4,746)
Adjustments for:			
Share based compensation		**195**	95
Depreciation		**43**	145
Fair value (gain) / loss - outstanding warrants		**(991)**	1,881
Net finance (income) / expense		**(24)**	1,477
Other		**33**	(126)
Contribution to past costs - Chevron		**-**	1,000
Change in non-cash working capital	6	**(161)**	(168)
Interest received	4	**17**	6
Net cash used in operating activities		**(1,221)**	(436)
Cash flows from investing activities			
Exploration and evaluation assets		**(373)**	-
Proceeds from farm-out transaction – NIS		**-**	1,500
Property, plant and equipment		**(8)**	-
Net cash (used in) / generated by investing activities		**(381)**	1,500
Cash flows from financing activities			
Proceeds from private placement		**-**	25,072
Transaction costs relating to private placement		**-**	(1,762)
Net cash from financing activities		**-**	23,310
Change in cash and cash equivalents		**(1,602)**	24,374
Effect of exchange rates on cash & cash equivalents		**50**	(151)
Cash and cash equivalents at beginning of period		**8,431**	2,884
Cash and cash equivalents at end of period		**6,879**	27,107

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 ("**TSX-V**") (symbol: FO.V); AIM, a market operated by the London Stock Exchange (symbol: FOG) and ESM, a market regulated by the Irish Stock Exchange (symbol: FAC).

The information provided herein in respect of Falcon includes information in respect of its wholly-owned subsidiaries: Mako Energy Corporation, a Delaware company ("**Mako**"); TXM Oil and Gas Exploration Kft., a Hungarian limited liability company ("**TXM**"); TXM Marketing Trading & Service Kft., a Hungarian limited liability company ("**TXM Marketing**"); Falcon Oil & Gas Ireland Ltd., an Irish limited liability company ("**Falcon Ireland**"); Falcon Oil & Gas Holdings Ireland Ltd., an Irish limited liability company ("**Falcon Holdings Ireland**"); Falcon Oil & Gas USA Inc., a Colorado company ("**Falcon USA**"); Falcon Exploration and Production South Africa (Pty) Ltd., a South African limited liability company ("**Falcon South Africa**") and its 98.1% majority owned subsidiary, Falcon Oil & Gas Australia Limited, an Australian limited liability company ("**Falcon Australia**") (collectively, the "**Company**" or the "**Group**").

2. Accounting policies

Basis of preparation and operations

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

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

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

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

The Group's Interim Statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

As at 31 March 2014, the Group had a cash balance of $6.9 million (31 December 2013: $8.4 million).

On 2 May 2014, Falcon executed Definitive Agreements including a Farm-Out Agreement and Joint Operating Agreements (collectively "**the Agreements**") with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited ("**Origin**") and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), collectively referred to herein as "**the Farminees**", to each farm into 35% of Falcon's Exploration Permits in the Beetaloo Basin, Australia ("**the Permits**"). The Agreements are subject to conditions inter alia Government, statutory authority consents and relevant Stock Exchange approvals. Falcon Australia will receive A$20 million cash when the Farm-out completes.

2. Accounting policies (continued)

The Group has forward looking cash commitments regarding its exploration licences and overheads which need to be met within the next 12 months. These are expected to be funded from existing cash reserves and the upfront cash payment received on completion of the Farm-out. Completion of the Farm-out is subject conditions precedent being Government, including statutory authority consents, and relevant Stock Exchange approvals. Should the conditions precedent not be met, or there is a significant delay, the Directors are confident further funds can be raised through the sale of additional Common Shares, other debt or equity instruments or asset dispositions and it is appropriate to prepare the Interim Statements on a going concern basis. However, there can be no certainty that any of the aforementioned transactions will complete. This indicates the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These Interim Statements do not include the adjustments that would be required if the Group could not continue as a going concern.

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
Three months ended 31 March 2014							
Revenue	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Net (loss) \ income (i)	**(257)**	**(21)**	**(415)**	**2**	**361**	**1**	**(329)**
At 31 March 2014							
Capital assets (ii)	**51,630**	**-**	**28,322**	**134**	**-**	**-**	**80,086**

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

3. Segment information (continued)

	Australia $'000	South Africa $'000	Hungary $'000	Ireland $'000	Canada $'000	United States $'000	Total $'000
Three months ended 31 March 2013							
Revenue	-	-	-	-	3	-	3
Net loss (i)	(118)	(5)	(524)	-	(3,987)	(67)	(4,701)
At 31 March 2013							
Capital assets (ii)	49,860	-	28,120	174	-	-	78,154

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

4. Finance income and expense

	Notes	For the three months ended 31 March **2014 $'000**	2013 $'000
Finance income			
Interest income on bank deposits		**17**	6
Derivative gains (i)		**-**	2
Net foreign exchange gain		**42**	-
		59	8
Finance expense			
Effective interest on loans and borrowings		**-**	(1,435)
Accretion of decommissioning provisions	13	**(35)**	(36)
Net foreign exchange loss		**-**	(14)
		(35)	(1,485)
Net finance income \ (expense)		**24**	(1,477)

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

5. Net loss per share

Basic and diluted loss per share is calculated as follows:

	For the three months ended 31 March **2014 $'000**	2013 $'000
Loss attributable to equity holders of the company	**(329)**	**(4,701)**
Weighted average number of common shares in issue - (thousands)	**921,537**	702,304
Loss / diluted loss per share	**($0.000)**	**($0.007)**

6. Supplemented cash flow information

Changes in non-cash working capital is comprised of:

	For the three months ended 31 March	
	2014	2013
	$'000	$'000
Trade and other receivables	**(269)**	277
Accounts payable and accrued expenses	**108**	(445)
	(161)	(168)

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

	Australia	**South Africa**	**Hungary**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January 2014	**51,444**	**-**	**23,073**	**74,517**
Additions	**186**	**-**	**33**	**219**
Decommissioning provision	**-**	**-**	**(16)**	**(16)**
At 31 March 2014	**51,630**	**-**	**23,090**	**74,720**

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

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

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

Beetaloo Basin, Northern Territory, Australia

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

On 2 May 2014, the Group announced that Falcon Australia, has executed Definitive Agreements including a Farm-Out Agreement and Joint Operating Agreements (collectively "**the Agreements**") with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited ("**Origin**") and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Saso**l"), collectively referred to herein as "**the Farminees**", to each farm into 35% of Falcon's Exploration Permits in the Beetaloo Basin, Australia ("**the Permits**"). The Agreements are subject to conditions inter alia Government, statutory authority consents and relevant Stock Exchange approvals.

7. Exploration and Evaluation assets (continued)

The transaction details are:

- Farminees to carry Falcon in a nine well exploration and appraisal program over five years, detailed as follows:
  - 3 vertical exploration/stratigraphic wells and core studies;
  - 1 hydraulic fracture stimulated vertical exploration well and core study;
  - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
  - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling to commence as soon as possible following completion of the Agreements - targeting 2014 subject to the normal regulatory requirements and rig availability.
- Drilling/testing specifically planned to take the project towards commerciality.
- Farminees to pay Falcon A$20 million cash on completion of the Agreements.
- Origin and Sasol to each earn 35% interest in the Permits.
- Falcon to retain a 30% interest in the Permits.
- Origin to be the Operator.
- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. This work is expected to be completed within the first three years.
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic with a capped expenditure of A$53 million, any cost overrun funded by each Party in proportion to their working interest. This work programme is expected to be undertaken in year 4.
- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A$48 million, any cost overrun funded by each Party in proportion to their working interest. This work programme is expected to be undertaken in year 5.
- As part of the agreements to reduce the overriding royalties from what was originally 12% to 1%, Farminees will pay their pro-rata share (US$14 million) of the two five year call options entered into by Falcon as part of agreements announced on 1 November 2013 with CR Innovations AG and 17 December 2013 with the TOG Group, should Farminees and Falcon decide to exercise the call options.
- Farminees may reduce or surrender their interests back to Falcon only after:
  - the drilling of the first five wells or
  - the drilling and testing of the next two horizontally fracture stimulated wells.

Renewal and Relinquishment:
Three (EP-76, EP-98 and EP-117) of Falcon Australia's four Beetaloo Permits were due for renewal at 31 December 2013. As part of the renewal process, Falcon agreed to relinquish approximately 26% of the three Permits which was not considered to be core to the unconventional play in the Beetaloo Basin by Falcon, Origin and Sasol. The renewal of the three Permits was completed on 30 April 2014. Falcon Australia's fourth permit, EP-99, which was due for renewal at 31 December 2014 was surrendered as it too was not considered to be core to the unconventional play**.**

Karoo Basin, South Africa

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

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

7. Exploration and Evaluation assets (continued)

On 12 March 2014, South Africa's parliament passed "the Mineral and Petroleum Resources Development Amendment Bill" ("**MPRD Bill**") which amends the Mineral and Petroleum Resources Development Act (28 of 2002), South Africa's main petroleum law. This bill has been approved by the National Council of Provinces ("**NCOP**"). The Bill still needs to be sent to the President's office for signing. Once it has been signed, a date for the commencement of the amendments will be published in the Government Gazette. Among the proposed changes, the law gives the state a free carried interest of 20% in new gas and oil exploration and production ventures. In addition to this 20% free carried interest, the government introduced a new clause entitling it to further participation in the form of an acquisition at an agreed price or production sharing agreements. No percentage limit on this entitlement has been stated in the amendments. The MPRD Bill stipulates that regulations must be promulgated to give effect to these provisions. The Department of Mineral Resources ("**DMR**") is in the process of formulating regulations, which are likely to limit the time and manner in which the Government will be entitled acquire further participating interests in petroleum operations.

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 E&E expenses.

Makó Trough, Hungary

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

The Makó Trough contains two distinct plays:

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

In January 2013, Falcon agreed a three-well drilling exploration programme with Naftna industrija Srbije jsc ("**NIS**"), 56% owned 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 against the carrying amount of the E&E asset in Hungary; and agreed to drill three wells by mid 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 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 Kútvölgy-1, the first joint well between NIS and Falcon, 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. No operational problems or accidents occurred during drilling. As announced on 16 May 2014, the second joint well "Besa-D-1" has been spudded. In addition, it was announced that the Kútvölgy-1 well testing operations were completed. The testing indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates. Falcon and NIS have discontinued testing Kútvölgy-1; the well is to be plugged and abandoned. Falcon and NIS are now focused on Besa-D-1.

8. Property, plant and equipment

	Canadian natural gas interests $'000	Pipeline and facilities $'000	Furniture and equipment $'000	Total $'000
Cost:				
At 1 January 2014	**466**	**4,234**	**2,704**	**7,404**
Additions	**-**	**-**	**8**	**8**
Decommissioning provision	**-**	**(2)**	**-**	**(2)**
At 31 March 2014	**466**	**4,232**	**2,712**	**7,410**
Depreciation:				
At 1 January 2014	**(466)**	**-**	**(1,535)**	**(2,001)**
Depreciation	**-**	**-**	**(43)**	**(43)**
At 31 March 2014	**(466)**	**-**	**(1,578)**	**(2,044)**
Net book value:				
At 31 March 2014	**-**	**4,232**	**1,134**	**5,366**

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

9. 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. 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 $0.2 million during the period ended 31 March 2014 (three months ended 31 March 2013: $0.1 million).

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

	Three month ended 31 March 2014		Year ended 31 December 2013	
	Number of options	**Weighted average exercise price CDN$**	Number of options	Weighted average exercise price CDN$
Outstanding as at beginning of period	34,952,000	0.16	32,837,000	0.35
Granted	**-**	**-**	9,900,000	0.23
Expired	**-**	**-**	(6,985,000)	1.15
Exercised	**-**	**-**	(800,000)	0.15
Outstanding as at end of period	34,952,000	0.16	34,952,000	0.16
Exercisable as at end of period	21,052,000	0.14	21,052,000	0.14

The exercise prices of the outstanding options are as follows:

Date of grant	**Options**	**Exercise price CDN$**	**Date of Expiry**	**Weighted average contractual life remaining (years)**
30 August 2010	3,312,000	0.170	30 August 2015	1.42
23 May 2011	15,590,000	0.145	23 May 2016	2.15
1 June 2011	150,000	0.145	1 June 2016	2.17
1 May 2012	6,000,000	0.100	1 May 2017	3.09
30 April 2013	3,000,000	0.215	29 April 2018	4.08
30 April 2013	6,900,000	0.240	29 April 2018	4.08
	34,952,000			

10. Determination of fair values

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

(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 31 March 2014 and 31 December 2013, the fair value of cash and cash equivalents, restricted cash, 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 private placement warrants, 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.

11. Financial Instruments and risk management

(i) Fair Value

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

	31 March 2014		31 December 2013	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Financial assets:				
Cash and cash equivalents including restricted cash	**7,483**	**7,483**	9,046	9,046
Loans and receivables:				
Accounts receivable	**820**	**820**	550	550
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**1,518**	**1,518**	1,533	1,533

11. Financial Instruments and risk management (continued)

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

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

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

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

	Carrying amount $'000	Fair value $'000
31 March 2014		
Financial liabilities:		
Private placement warrants	113	113
Hess warrants	293	293
31 December 2013		
Financial liabilities:		
Private placement warrants	949	949
Hess warrants	448	448

All instruments in the table are Level 2 instruments.

12. Derivative liabilities

Derivative 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 Statement of Operations and Comprehensive Loss. The composition of the derivative liabilities as at 31 March 2014 and 31 December 2013, and the changes therein for the period then ended, are as follows:

	Convertible Debt Conversion Feature $'000	Private Placement Warrants $'000	Hess Warrants $'000	Total $'000
At 1 January 2013	26	4,505	787	5,318
Derivative gains - debt conversion feature	(26)	-	-	(26)
Derivative gains - outstanding warrants	-	(3,556)	(339)	(3,895)
At 31 December 2013	-	949	448	1,397
Derivative gains – outstanding warrants	**-**	**(836)**	**(155)**	**(991)**
At 31 March 2014	**-**	**113**	**293**	**406**

12. Derivative liabilities (continued)

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

	Private Placement Warrants $'000	**Hess Warrants $'000**	**Total $'000**
Non-current	-	-	-
Current	113	293	406
At 31 March 2014	**113**	**293**	**406**

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[(i)]	8 April 2011	31,887,500	0.18	-	8 April 2014
Hess[(ii)]	13 July 2011	10,000,000	0.19	1,900	13 January 2015
Total		**41,887,500**		**1,900**	

*Proceeds from warrants are subject to the warrant holders exercising their warrants. The warrants which expired on 8 April 2014 were not exercised.

(i) In 2011, Falcon issued 87,050,000 units (the "**Units**") at $0.16 (CDN$0.15) per unit by way of a non-brokered private placement for aggregate gross proceeds of $13.7 million (CDN$13.1 million), before offering costs of $194. Each Unit consists of one common share in the capital of Falcon (each, a "**Common Share**") and three-quarters of one Common Share purchase warrant (each, a "**Warrant**"), each whole Warrant being exercisable into a Common Share for a period of 36 months from the date of its issuance at an exercise price of CDN$0.18 per share. 33,400,000 of these Warrants expired, unexercised on 10 February 2014. The remaining 31,887,500 Warrants expired unexercised on 8 April 2014.

(ii) In April 2011, Falcon entered into a joint venture with Hess Australia (Beetaloo) Pty. Ltd ("Hess"). Under the terms of the 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**").

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

	Private Placement Warrants 31 March 2014	**Hess Warrants** 31 March 2014
Number	31,887,500	10,000,000
Expiry	8 April 2014	31 January 2015
Exercise price	**CDN$0.18**	**CDN$0.19**
Volatility	**38.38%**	**56.42%**
Expected warrant life	**0.02 years**	**0.79 years**
Dividends	**Nil**	**Nil**
Risk-free rate	**1.067%**	**1.067%**

12. Derivative liabilities (continued)

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

13. Decommissioning Provision

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

	2014 **$'000**	2013 $'000
Balance as at beginning of period	**11,138**	11,005
Revision to provisions	**(18)**	25
Utilised	**-**	(50)
Accretion	**35**	158
Balance as at end of period – non current	**11,155**	11,138

The Group's decommissioning provision results from its ownership interest in oil and natural gas assets. The total decommissioning provision is estimated based on the Group's net ownership interest in the wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years. The Group has estimated the net present value of the decommissioning provision to be $11.2 million as at 31 March 2014 (31 December 2013: $11.1 million) based on an undiscounted total future liability of $13.3 million (2013: $13.4 million). These payments are expected to be made over approximately the next 20 years with the majority of costs to be incurred between 2027 and 2031. The discount factor, being the risk free rate related to the liability, was 1.3% as at 31 March 2014 (31 December 2013: 1.3%).

14. Related party transactions

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

Dr. György Szabó Consulting Agreement
On 27 February 2009, Dr. György Szabó (Executive Director and Co-Managing Director of Falcon –TXM) entered into a consulting agreement (the "**GS Consulting Agreement**") with Falcon TXM ("**TXM**"), pursuant to which Dr. Szabó agreed to act as Managing Director of TXM, to perform certain oil and gas services for TXM and to not compete directly or indirectly with TXM during his employment with TXM. Dr. Szabó is paid a monthly fee of $5,000. The GS Consulting Agreement contains standard confidentiality provisions. TXM may terminate the GS Consulting Agreement at any time, with or without cause, for any lawful reason whatsoever, upon TXM providing Dr. Szabó with sixty days' prior written notice. The GS Consulting Agreement expired on 31 December 2009, however Dr. Szabó has continued to provide general managerial services to TXM and to receive the same monthly fee. Dr. Szabó was paid $15,000 pursuant to the GS Consulting Agreement in the 3 month period ending 31 March 2014.

14. Related party transactions (continued)

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

TXM may terminate the P&S Agreement at any time, with or without cause, for any lawful reason whatsoever, upon TXM providing P&S with 30 days, prior written notice. TXM and P&S have further amended the terms of the P&S Agreement by oral agreement. Pursuant to the amended P&S Agreement, P&S is paid a monthly fee of $6,057 (effective 1 February 2014) (2013: $8,500) plus reasonable expenses incurred by Dr. Szabó as an employee of P&S, such amounts thereafter paid to Dr. Szabó from P&S. P&S was paid $20,614 pursuant to the agreement in the period ending 31 March 2014.

Senzus Kft
On 1 January 2013, Dr. Gábor Bada (Head of Technical) verbally agreed terms on which he will provide geological services to TXM as a consultant. Dr. Bada will be paid a consultancy fee of $20,000 in 2014 in relation to this work. Dr. Bada invoices TXM through his company Senzus Kft. Dr. Bada received a consultancy fee of $5,000 through Senzus Kft in the 3 month period ended 31 March 2014.

Oakridge Financial Management Inc.
The Group has engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canadian Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc.. The Group has incurred costs of approximately CDN$700 to Oakridge Financial Management Inc. during the period ended 31 March 2014

15. Subsequent events

On 2 May 2014, the Group announced that Falcon Australia, had executed Definitive Agreements including a Farm-Out Agreement and Joint Operating Agreements (collectively "the Agreements") with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited ("Origin") and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("Sasol"), collectively referred to herein as "the Farminees", to each farm into 35% of Falcon's Exploration Permits in the Beetaloo Basin, Australia ("the Permits"). The Agreements are subject to conditions inter alia Government, statutory authority consents and relevant Stock Exchange approvals. Falcon Australia will receive A$20 million cash when the Farm-out completes.

Three (EP-76, EP-98 and EP-117) of Falcon Australia's four Beetaloo Permits were due for renewal at 31 December 2013. As part of the renewal process, Falcon agreed to relinquish approximately 26% of the three Permits which was not considered to be core to the unconventional play in the Beetaloo Basin by Falcon, Origin and Sasol. The renewal of the three Permits was completed on 30 April 2014. Falcon Australia's fourth permit, EP-99, which was due for renewal at 31 December 2014 was surrendered as it too was not considered to be core to the unconventional play.

16. Approval of Interim financial statements

These Interim Financial Statements were approved by the Audit Committee as delegated by the Board of Directors and authorised for issue on 27 May 2014.

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