



Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Six Months Ended 30 June 2020 and 2019

(Presented in U.S. Dollars)

27 August 2020

To the shareholders of Falcon Oil & Gas Ltd.

Notice of No Auditor Review

The accompanying unaudited interim condensed consolidated financial statements as at and for the three and six months ended 30 June 2020 and 2019, have been prepared by the management of the Company and approved by the Audit Committee.

The Company's independent auditors have not performed a review of these financial statements.

Falcon Oil & Gas Ltd.
Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019

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Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Statement of Operations and Comprehensive Income / (Loss)

(Unaudited)

	Notes	Three months ended 30 June 2020 \$'000	Three months ended 30 June 2019 \$'000	Six months ended 30 June 2020 \$'000	Six months ended 30 June 2019 \$'000
Revenue					
Oil and natural gas revenue	3	1	1	2	3
		1	1	2	3
Expenses					
Exploration and evaluation expenses		(35)	(108)	(73)	(149)
Production and operating expenses		(3)	(3)	(5)	(6)
General and administrative expenses		(597)	(443)	(1,000)	(902)
Share based compensation	9	-	-	-	(12)
Foreign exchange gain / (loss)		17	24	(11)	(27)
		(618)	(530)	(1,089)	(1,096)
Results from operating activities		(617)	(529)	(1,087)	(1,093)
Fair value gain – outstanding warrant	12	-	570	110	103
Finance income	4	874	144	15	187
Finance expense	4	(58)	(56)	(279)	(113)
Net finance income / (expense)		816	88	(264)	74
Income / (loss) and comprehensive income / (loss) for the period		199	129	(1,241)	(916)
Income / (loss) and comprehensive income / (loss) attributable to:					
Equity holders of the company		183	127	(1,238)	(917)
Non-controlling interests		16	2	(3)	1
Income / (loss) and comprehensive income / (loss) for the period		199	129	(1,241)	(916)
Income / (loss) per share attributable to equity holders of the company:					
Basic and diluted	5	0.001 cent	0.001 cent	(0.001 cent)	(0.001 cent)

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

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

		At 30 June 2020 \$'000	At 31 December 2019 \$'000
	Notes		
Assets			
Non-current assets			
Exploration and evaluation assets	6	40,294	40,246
Property, plant and equipment		1	1
Trade and other receivables		21	30
Restricted cash	7	2,225	2,241
		42,541	42,518
Current assets			
Cash and cash equivalents	8	11,815	13,066
Trade and other receivables		104	141
		11,919	13,207
Total assets		54,460	55,725
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	18	392,170	392,170
Contributed surplus		45,075	45,075
Retained deficit		(394,581)	(393,343)
		42,664	43,902
Non-controlling interests		697	700
Total equity		43,361	44,602
Liabilities			
Non-current liabilities			
Decommissioning provision	13	10,444	10,331
		10,444	10,331
Current liabilities			
Accounts payable and accrued expenses	14	655	682
Derivative financial liabilities	12	-	110
		655	792
Total liabilities		11,099	11,123
Total equity and liabilities		54,460	55,725

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 2019		383,737	45,063	(391,604)	37,196	700	37,896
Share based compensation (Loss) / income and total comprehensive (loss) / income for the period	9	-	12	-	12	-	12
Private placement	18	8,433	-	(917)	8,433	1	(916)
At 30 June 2019		392,170	45,075	(392,521)	44,724	701	45,425
At 1 January 2020		392,170	45,075	(393,343)	43,902	700	44,602
Loss and total comprehensive loss for the period		-	-	(1,238)	(1,238)	(3)	(1,241)
At 30 June 2020		392,170	45,075	(394,581)	42,664	697	43,361

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

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

		Six months ended 30 June	
	Notes	2020	2019
		\$'000	\$'000
Cash flows from operating activities			
Net loss for the period		(1,241)	(916)
Adjustments for:			
Share based compensation	9	-	12
Fair value gain - outstanding warrant	12,15	(110)	(103)
Net finance expense / (income)	4	264	(74)
Effect of exchange rates on operating activities		11	27
Change in non-cash working capital:			
Decrease / (increase) in trade and other receivables		46	(28)
Increase in accounts payable and accrued expenses		37	139
Net cash used in operating activities		(993)	(943)
Cash flows from investing activities			
Interest received		15	70
Exploration and evaluation assets		(48)	(14)
Net cash (used in) / generated from investing activities		(33)	56
Cash flows from financing activities			
Net proceeds from private placement	18	-	8,433
Net cash generated from financing activities		-	8,433
Change in cash and cash equivalents		(1,026)	7,546
Effect of exchange rates on cash & cash equivalents		(225)	(48)
Cash and cash equivalents at beginning of period		13,066	6,967
Cash and cash equivalents at end of period	8	11,815	14,465

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

Falcon Oil & Gas Ltd.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) For the Three and Six Months Ended 30 June 2020 and 2019

1. General Information

Falcon Oil & Gas Ltd. (“**Falcon**”) is an oil and gas company engaged in the exploration and development of unconventional oil and gas assets. Falcon’s interests are located in Australia, Hungary, South Africa and Canada. The carrying value at 30 June 2020 of the Company’s interest in Australia is \$40.3 million, while the Hungarian asset is nil due to a determination in 2014 that the estimated recoverable amount was insufficient to cover the carrying value of the asset. For the South African interest, costs associated with the technical cooperation permits are expensed as incurred.

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); and AIM, a market operated by the London Stock Exchange (symbol: FOG).

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

2. Accounting policies

Basis of preparation and going concern

These Interim Condensed Consolidated Financial Statements (“**Interim Statements**”) of the Group have been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ and, except as described below, on the basis of the same accounting principles as, and should be read in conjunction with, the Consolidated Financial Statements for the year ended 31 December 2019 (pages 10 to 16) as filed on the Canadian Securities Administrator’s System for Electronic Document Analysis and Retrieval (“**SEDAR**”) at www.sedar.com.

There are no amended accounting standards or new accounting standards that have any significant impact on these interim financial statements applicable as at 1 January 2020.

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

Having given due consideration to the cash requirements of the Group, the Board of Directors (“**the Board**”) has a reasonable expectation that the Group will have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. As noted on 26 March 2020 given the unprecedented circumstances brought about by COVID-19 the joint venture decided to temporarily pause activities to the latter half of 2020, which resulted in reduced project costs for a number of months. Furthermore, on 7 April 2020 it was announced that Falcon Australia had agreed to farm down 7.5% of its participating interest in the Exploration Permits, following the transaction, Falcon Australia holds a 22.5% participating interest. In consideration for the farm down Origin Energy B2 Pty Ltd. (“**Origin**”) agreed to increase the gross cost cap of the work program by A\$150.5 million. The previous farm-in arrangement included a Stage 2 gross cost cap of A\$65.3 million and a Stage 3 gross cost cap of A\$48 million, or A\$113.3 million in total. Under the Agreements, the Stage 2 and Stage 3 gross cost caps will be combined and increased by A\$150.5 million to A\$263.8 million. Northern Territory government approval remains outstanding; however, management expects this will be received in due course. On 20 August 2020 it was announced that subject to COVID-19 related conditions, fracture stimulation of the Kyalla 117 N2-1H ST2 well is expected to commence in Q3/Q4 2020 with extended production testing of the well to follow. Initial results from the production test are expected during Q4 2020 with final results expected by the end of Q1 2021. These results will inform the decision to either further evaluate this liquids-rich gas play or commence activities in the Velkerri liquids-rich gas play. For these reasons, the Board continues to adopt the going concern basis in preparing these consolidated financial statements which assumes the Group will be able to realise its assets and discharge its liabilities as they fall due for at least twelve months from the date of approval of these financial statements.

The Group notes the introduction of IFRS 16 Leases, effective from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019****2. Accounting policies (continued)**

use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

The impact of applying IFRS 16 is the recognition of a new asset and liability for the Group's operating leases of office premises, as well as changing the nature of related expenses whereby the depreciation charge for right-of-use assets and interest expense on leases liabilities replaces the straight-line operating lease expense. Having assessed the requirements of IFRS 16, management has concluded that this is not material for the Group and therefore no right of use asset or lease liability has been recognised.

3. Segment information

Based on internal reporting information, it was determined that there is one reportable segment. All of the Group's operations are in the petroleum and natural gas industry with its principal business activity being in the acquisition, exploration and development of petroleum and natural gas properties. The Group has producing petroleum and natural gas properties located in Canada and considers the results from its operations to relate to the petroleum and natural gas properties. The Group has unproven petroleum and natural gas interests in Australia, South Africa and Hungary.

The key performance measures reviewed for the segment which management believes are the most relevant information when evaluating the results of the Group are:

- the progress and extent to which farm-out agreements have been executed over the Group's acreage; and
- cash flow, capital expenditure and operating expenses.

An analysis of the geographic areas is as follows:

	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
Six months ended 30 June 2020					
Revenue	-	-	-	2	2
Net loss ⁽ⁱ⁾	(412)	(37)	(324)	(465)	(1,238)
At 30 June 2020					
Capital assets ⁽ⁱⁱ⁾	40,294	-	-	1	40,295

	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
Six months ended 30 June 2019					
Revenue	-	-	-	3	3
Net loss ⁽ⁱ⁾	(100)	(38)	(331)	(448)	(917)
At 30 June 2019					
Capital assets ⁽ⁱⁱ⁾	39,719	-	-	2	39,721

(i) Net loss attributable to equity holders of the company.

(ii) Capital assets consist of exploration and evaluation assets and property, plant and equipment.

Falcon Oil & Gas Ltd.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019**

4. Finance income and expense

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Finance income					
Interest income on bank deposits		1	35	15	70
Net foreign exchange gain		873	109	-	117
		874	144	15	187
Finance expense					
Accretion of decommissioning provisions	13	(58)	(56)	(116)	(113)
Net foreign exchange loss		-	-	(163)	-
		(58)	(56)	(279)	(113)
Net finance income / (expense)		816	88	(264)	74

5. Net income / (loss) per share

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

	Three months ended 30 June		Six months ended 30 June	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Income / (loss) attributable to equity holders of the company	183	127	(1,238)	(917)
Weighted average number of common shares in issue - (thousands)	981,847	955,743	981,847	943,591
Income / (loss) / diluted loss per share	0.001 cent	0.001 cent	(0.001 cent)	(0.001 cent)

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

	Australia \$'000	Total \$'000
At 1 January 2020	40,246	40,246
Addition	48	48
At 30 June 2020	40,294	40,294
	Australia \$'000	Total \$'000
At 1 January 2019	39,705	39,705
Additions	541	541
At 31 December 2019	40,246	40,246

E&E assets consist of the Group's exploration projects which are pending the determination of proven or probable reserves.

For detailed discussion on the exploration and evaluation assets, please refer to the Management's Discussion & Analysis document for the three and six months ended 30 June 2020 on pages 6-15.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019****7. Restricted cash**

Restricted cash includes cash held by financial institutions as collateral for ongoing Group operations. In January 2015, the Group placed \$2 million on deposit for the benefit of the Hungarian mining authority as a security deposit with regards the Group's decommissioning obligations.

	30 June 2020 \$'000	31 December 2019 \$'000
Restricted cash	2,225	2,241
	2,225	2,241

8. Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held on call with banks, other short term highly liquid investments with initial maturities of three months or less at inception and bank overdrafts where a legal right of offset exists.

	30 June 2020 \$'000	31 December 2019 \$'000
Cash and cash equivalents	11,815	13,066
	11,815	13,066

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 Group's issued and outstanding common stock. The exercise price of each option is based on the market price of the Group's stock at the date of grant, which may be discounted in accordance with TSX-V policies. The exercise price of all options granted to date has been based on the market price of the Group's stock at the date of grant, and no options have been granted at a discount to the market price. The options can be granted for a maximum term of five years. The Group records compensation expense over the vesting period based on the fair value at the grant date of the options granted. These amounts are recorded as contributed surplus.

Any consideration paid on the exercise of these options together with the related contributed surplus associated with the exercised options is recorded as share capital. The Group did not incur a share based expense during the period ended 30 June 2020 (2019: \$12,000).

Six million options were granted in the period to 30 June 2017 at an average exercise price of CDN\$0.20. Two million options vested immediately with an additional one third vesting on each subsequent anniversary until the options are fully vested on 22 February 2019.

There were no share options exercised during 2019 or for the six months ended 30 June 2020.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019****9. Share based compensation (continued)**

A summary of the Group's stock option plan as of 30 June 2020 and 31 December 2019 and changes during the periods then ended, is presented below:

	Six months ended 30 June 2020		Year ended 31 December 2019	
	Number of options	Weighted average exercise price CDN\$	Number of options	Weighted average exercise price CDN\$
Outstanding as at beginning of period	40,333,334	0.13	40,333,334	0.13
Expired	(5,000,000)	0.15	-	-
Outstanding as at end of period	35,333,334	0.13	40,333,334	0.13
Exercisable as at end of period	35,333,334	0.13	40,333,334	0.13

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)
15 January 2016	29,333,334	0.11	14 January 2021	0.54
22 February 2017	6,000,000	0.20	21 February 2022	1.65
	35,333,334	0.13		

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

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

As at 30 June 2020 and 31 December 2019, the fair value of cash and cash on equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short term to maturity.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019****11. Financial Instruments and risk management**

The following tables provide fair value measurement information for financial assets and liabilities as at 30 June 2020 and 31 December 2019. 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. Financial assets in the table below are measured at amortised cost.

	Carrying value \$'000	30 June 2020 Fair value \$'000	31 December 2019 Carrying value \$'000	31 December 2019 Fair value \$'000
Financial assets:				
Cash and cash equivalents including restricted cash	14,040	14,040	15,307	15,307
Accounts receivable	118	118	161	161
Financial Liabilities:				
<i>Other financial liabilities</i>				
Accounts payable and accrued expenses	655	655	682	682

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 2020		
Financial liabilities:		
Warrant	-	-
31 December 2019		
Financial liabilities:		
Warrant	110	110

The instrument in the table above is a Level 2 instrument. For further details on the valuation of the warrant please refer to note 12.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019****12. Derivative liabilities**

Derivative liabilities consist of the fair value of a warrant. Changes in the fair value of the derivative liabilities are recorded in the Consolidated Statement of Operations and Comprehensive Income / (Loss). The composition of the derivative liabilities as at 30 June 2020 and 31 December 2019, and the changes therein for the period then ended, are as follows:

	Warrant \$'000
At 1 January 2019	479
Derivative gain – unrealised – outstanding warrant	(369)
At 31 December 2019 - current	110
Derivative gain – realised - warrant	(110)
At 30 June 2020 – current	-

The terms of the warrant were as follows:

Warrant issue	Date of issue	Number of common shares issuable under warrant	Exercise Price CDN\$	Proceeds from warrant* CDN\$'000	Expiry date
Warrant	13 July 2011	10,000,000	0.19	1,900	13 January 2020
Total		10,000,000		1,900	

*Proceeds from warrant are subject to the warrant holder exercising their warrant.

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

	Warrant 30 June 2020	Warrant 31 December 2019
Number	-	10,000,000
Expiry	-	13 January 2020
Exercise price	-	CDN\$0.19
Volatility	-	53.572%
Expected warrant life	-	0.04 years
Dividends	-	Nil
Risk-free rate	-	1.69%

On 3 October 2017, Falcon announced the transfer of the warrant to acquire 10,000,000 common shares in the capital of Falcon by Hess Oil and Gas Holdings Inc. to Nicolas Mathys. The terms of the warrant remained unchanged, with an exercise price of CDN\$0.19 per share and an expiry date of 13 January 2020. The warrant was not exercised and expired on 13 January 2020.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended 30 June 2020 and 2019****13. Decommissioning provision**

A reconciliation of the decommissioning provision for the period ended 30 June 2020 and the year ended 31 December 2019 is provided below:

	30 June 2020 \$'000	31 December 2019 \$'000
Balance as at beginning of period	10,331	10,102
Revision to provisions	(3)	3
Accretion	116	226
Non – current; balance at end of period	10,444	10,331

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's has estimated the net present value of the decommissioning provision to be \$10.1 million as at 30 June 2020 (2019: \$10.1 million) based on an undiscounted total future liability of \$12 million (2019: \$12.1 million). These payments are expected to be made over approximately the next seven years. The discount factor, being the risk-free rate related to the liability, was 2.25% as at 30 June 2020 (2019: 2.25%).

14. Accounts payable and accrued expenses

	30 June 2020 \$'000	31 December 2019 \$'000
Current		
Accounts payable	88	194
Accrued expenses	545	467
Royalties payable	22	21
	655	682

15. Note supporting statement of cash flows

	Notes	Derivative liability \$'000
At 1 January 2020		110
Non-cash flows – fair value gains realised	12	(110)
At 30 June 2020		-

Falcon Oil & Gas Ltd.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) For the Three and Six Months Ended 30 June 2020 and 2019

16. Related party transactions

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

Geoportal Plus Tanácsadó Bt.

On 1 March 2018, Geoportal Plus Tanácsadó Bt. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. It was paid a consultancy fee of \$15,726 for the period ended 30 June 2020 (2019: \$17,930).

17. Commitments

Work program commitments

Australia - Beetaloo Sub-Basin, Northern Territory, Australia

The work commitment on the Beetaloo Sub-basin, Northern Territory, Australia is aligned with the farm-out agreement entered into in August 2014.

The Group had planned a nine well drilling programme with Origin. The details are as follows:

- Falcon covered for the full cost of completing the first five wells, estimated at A\$64 million.
- Origin to pay the full cost of the next 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.
- Origin 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.

In August 2018 the Group agreed to amend the original farm-out agreement to deem Stage 1 of the exploration and appraisal drilling programme complete, thereby removing the requirement to fracture stimulate a vertical well and accelerate the programme into Stage 2 with a A\$15 million increase to the Stage 2 Cost Cap to approximately A\$65 million. Costs above the Cost Cap would need to be financed by the Group in accordance with their 30% participating interest.

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work recommenced in 2019, details are included in the Management's Discussion & Analysis for the period ended 30 June 2020 on pages 13 to 15.

Drilling in Stage 2 of the work programme commenced in October 2019, with drilling of the Kyalla 117 N2-1H ST2 ("**Kyalla 117**") horizontal well completed in February 2020. In March 2020 it was announced that given the unprecedented circumstances brought about by COVID-19 that the joint venture would temporarily pause activities with plans to resume in the latter half of 2020.

On 7 April 2020 Falcon Australia agreed to farm down 7.5% of its participating interest ("**PI**"), leaving it with a 22.5% PI in the permits. In consideration for Falcon Australia transferring the 7.5%, Origin increased the gross cost cap of the work program by A\$150.5 million. The previous farm-in arrangement included a Stage 2 gross cost cap of A\$65.3 million and a Stage 3 gross cost cap of A\$48 million, or A\$113.3 million in total. Under the Agreements, the Stage 2 and Stage 3 gross cost caps will be combined and increased by A\$150.5 million to A\$263.8 million. Northern Territory government approval remains outstanding; however management expects this will be received in due course.

On 20 August 2020 Falcon announced that subject to COVID-19 related conditions, fracture stimulation of Kyalla 117 is expected to commence in Q3/Q4 2020 with extended production testing of the well to follow. Initial results from the production test are expected during Q4 2020 with final results expected by the end of Q1 2021. These results will inform the decision to either further evaluate this liquids-rich gas play or commence activities in the Velkerri liquids-rich gas play.

Construction of the Velkerri 76 well lease pad was completed in early December 2019 and environmental approval to drill and fracture stimulate the Velkerri Flank well was granted in late December 2019.

Falcon Oil & Gas Ltd.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) For the Three and Six Months Ended 30 June 2020 and 2019

17. Commitments (continued)

South Africa - Karoo Basin, South Africa

On granting of an approved exploration right in South Africa, the Group will be required to make a payment to the South African government of approximately \$0.7 million.

Hungary - Makó Trough, Hungary

The Group is not committed to any independent technical operations in Hungary.

18. Share capital

As at 30 June 2020 and 31 December 2019, 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 2019	931,304,183	383,737
Private placement – May 2019	50,543,242	8,996
Private placement – May 2019 - expenses	-	(563)
At 31 December 2019	981,847,425	392,170
At 30 June 2020	981,847,425	392,170

On 17 May 2019 the Company completed a Placing and raised gross proceeds of c. £7 million (c.\$9 million), with Placees agreeing to subscribe for a total of 50,543,242 new Common Shares in Falcon at a Placing Price of £0.14 per Placing Share. Expenses associated with the placing amounted to \$563,000. The net proceeds of the Placing will primarily be used to fund Falcon's share of estimated capital expenditure in respect of the drilling and hydraulic fracture stimulation work programme in the Beetaloo Sub-basin, Australia.

19. Subsequent Events

On 7 July 2020 Falcon Australia agreed to a further extension of the call option up to and including 30 April 2022 ("**Additional Extension**"), to acquire its 22.5% portion of the 2% overriding royalty interest from Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**"). Following confirmation of registration of the Additional Extension from the Northern Territory government Falcon Australia will pay \$150,000 to the TOG Group for granting the Additional Extension, with the cost of exercising the call option increasing from \$5.625 million to \$6 million.

20. 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 August 2020.

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