Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended 30 September 2016 and 2015

(Presented in U.S. Dollars)

25 November 2016

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 nine months ended 30 September 2016, 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.

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

	Notes	**Three months ended 30 September 2016 $'000**	Three months ended 30 September 2015 $'000	**Nine months ended 30 September 2016 $'000**	Nine months ended 30 September 2015 $'000
Revenue					
Oil and natural gas revenue	3	**3**	2	**4**	6
		3	2	**4**	6
Expenses					
Exploration and evaluation expenses		**(77)**	(141)	**(265)**	(593)
Production and operating expenses		**(4)**	(4)	**(12)**	(15)
Depreciation	7	**(1)**	(8)	**(12)**	(26)
General and administrative expenses		**(440)**	(565)	**(1,584)**	(1,830)
Share based compensation	10	**(222)**	(28)	**(1,252)**	(228)
Foreign exchange gain		**10**	30	**28**	755
Other Income		**2**	1	**2**	1
		(732)	(715)	**(3,095)**	(1,936)
Results from operating activities		**(729)**	(713)	**(3,091)**	(1,930)
Fair value gain – outstanding warrant	13	**169**	291	**231**	22
Finance income	4	**6**	68	**33**	75
Finance expense	4	**(31)**	(38)	**(93)**	(172)
Net finance (expense) / income		**(25)**	30	**(60)**	(97)
Loss and comprehensive loss for the period		**(585)**	(392)	**(2,920)**	(2,005)
Loss and comprehensive loss attributable to:					
Equity holders of the company		**(586)**	(390)	**(2,918)**	(2,000)
Non-controlling interests		**1**	(2)	**(2)**	(5)
Loss and comprehensive loss for the period		**(585)**	(392)	**(2,920)**	(2,005)
Loss per share attributable to equity holders of the company:					
Basic and diluted	5	**(0.001 cent)**	(0.000 cent)	**(0.003 cent)**	(0.002 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)

	Notes	At 30 September 2016 $'000	At 31 December 2015 $'000
Assets			
Non-current assets			
Exploration and evaluation assets	6	**39,618**	39,618
Property, plant and equipment	7	**10**	64
Trade and other receivables		**27**	22
Restricted cash	8	**2,296**	2,239
		41,951	41,943
Current assets			
Cash and cash on deposit	9	**10,602**	12,683
Trade and other receivables		**210**	268
		10,812	12,951
Total assets		**52,763**	54,894
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		**382,853**	382,853
Contributed surplus		**44,168**	42,916
Retained deficit		**(385,460)**	(382,542)
		41,561	43,227
Non-controlling interests		**704**	706
Total equity		**42,265**	43,933
Liabilities			
Non-current liabilities			
Decommissioning provision	14	**9,660**	9,565
		9,660	9,565
Current liabilities			
Accounts payable and accrued expenses	15	**634**	961
Derivative financial liabilities	13	**204**	435
		838	1,396
Total liabilities		**10,498**	10,961
Total equity and liabilities		**52,763**	54,894

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 2015		382,853	42,660	(382,349)	**43,164**	713	**43,877**
Share based compensation	10	-	228	-	**228**	-	**228**
Net loss for the period		-	-	(2,000)	**(2,000)**	(5)	**(2,005)**
At 30 September 2015		382,853	42,888	(384,349)	**41,392**	708	**42,100**
At 1 January 2016		382,853	42,916	(382,542)	**43,227**	706	**43,933**
Share based compensation	10	-	1,252	-	**1,252**	-	**1252**
Net loss for the period		-	-	(2,918)	**(2,918)**	(2)	**(2,920)**
At 30 September 2016		**382,853**	**44,168**	**(385,460)**	**41,561**	**704**	**42,265**

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)

		Nine months ended 30 September	
		2016	2015
	Notes	**$'000**	$'000
Cash flows from operating activities			
Net loss for the period		**(2,920)**	(2,005)
Adjustments for:			
Share based compensation	10	**1,252**	228
Depreciation	7	**12**	26
Fair value gain - outstanding warrant	13	**(231)**	(22)
Net finance expense	4	**60**	97
Effect of exchange rates on operating activities		**(28)**	(755)
Change in non-cash working capital:			
Trade and other receivables		**53**	182
Accounts payable and accrued expenses		**(206)**	68
Restructuring spend		**-**	(439)
Interest received	4	**31**	75
Net cash used in operating activities		**(1,977)**	(2,545)
Cash flows from investing activities			
Increase in cash deposits – other receivables		**(1,701)**	-
Increase in restricted cash		**-**	(1,991)
Exploration and evaluation assets		**(110)**	(110)
Net cash used in investing activities		**(1,811)**	(2,101)
Change in cash and cash equivalents		**(3,788)**	(4,646)
Effect of exchange rates on cash & cash equivalents		**6**	(265)
Cash and cash equivalents at beginning of period		**10,683**	8,753
Cash and cash equivalents at end of period	9	**6,901**	3,842

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**"); 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 2015 (pages 9 to 14) 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 2016.

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.

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

3. Segment information

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

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

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

3. Segment information (continued)

An analysis of the geographic areas is as follows:

	Australia $'000	**South Africa $'000**	**Hungary $'000**	**Other $'000**	**Total $'000**
Nine months ended 30 September 2016					
Revenue	**-**	**-**	**-**	**4**	**4**
Net loss (i)	**(350)**	**(328)**	**(634)**	**(1,606)**	**(2,918)**
At 30 September 2016					
Capital assets (ii)	**39,618**	**-**	**-**	**10**	**39,628**

	Australia $'000	South Africa $'000	Hungary $'000	Other $'000	Total $'000
Nine months ended 30 September 2015					
Revenue	-	-	-	6	6
Net loss (i)	(471)	(678)	(282)	(569)	(2,000)
At 30 September 2015					
Capital assets (ii)	39,616	-	-	77	39,693

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

4. Finance income and expense

		Three months ended 30 September		Nine months ended 30 September	
	Notes	**2016 $'000**	2015 $'000	**2016 $'000**	2015 $'000
Finance income					
Interest income on bank deposits		**6**	68	**31**	75
Net foreign exchange gain		**-**	-	**2**	-
		6	68	**33**	75
Finance expense					
Accretion of decommissioning provisions	14	**(31)**	(31)	**(93)**	(92)
Net foreign exchange loss		**-**	(7)	**-**	(80)
		(31)	(38)	**(93)**	(172)
Net finance (expense) / income		**(25)**	30	**(60)**	(97)

5. Net loss per share

Basic and diluted loss per share is calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016 $'000	2015 $'000	**2016 $'000**	2015 $'000
Loss attributable to equity holders of the company	**(586)**	(390)	**(2,918)**	(2,000)
Weighted average number of common shares in issue - (thousands)	**921,538**	921,538	**921,538**	921,538
Loss / diluted loss per share	**(0.001 cent)**	(0.000 cent)	**(0.003 cent)**	(0.002 cent)

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

	Australia $'000	**Total $'000**
At 1 January 2016	**39,618**	**39,618**
At 30 September 2016	**39,618**	**39,618**

	Australia $'000	Total $'000
At 1 January 2015	39,619	39,619
Disposals	(1)	(1)
At 31 December 2015	39,618	39,618

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

Beetaloo Basin, Northern Territory, Australia

Falcon Australia, Falcon's 98.1% owned subsidiary, is one of three registered holders of three exploration permits covering approximately 4.6 million gross acres (approximately 18,362 km^2), 1.4 million net acres in the Beetaloo Basin, a sparsely populated area of the Northern Territory.

On 21 August 2014, Falcon Australia completed its Farm-Out Agreement and Joint Operating Agreement (collectively "**the Agreements**") with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited ("**Origin**") and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), (collectively referred to herein as the "**Farminees**"), each farming into 35% of Falcon Australia's exploration permits in the Beetaloo Basin, Australia (the **"Permits**").

The transaction details were:

- Falcon Australia received A$20 million cash from the farminees.
- Origin was appointed as Operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal program between 2014 and 2018 inclusive, detailed as follows:
  - 3 vertical exploration/stratigraphic wells and core studies;
  - 1 hydraulic fracture stimulated vertical exploration well and core study;
  - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
  - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retains a 30% interest in the Permits.

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

- Farminees will pay the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. 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.
- 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.
- Farminees may reduce or surrender their interests back to Falcon Australia only after:
  - the drilling of the first five wells or
  - the drilling and testing of the subsequent horizontally fracture stimulated wells.

On 25 July 2016 Falcon announced that:

- The horizontal section of Amungee NW-1H was successfully cased and cemented with preparations being finalised to conduct a multi-stage hydraulic stimulation.
- The Beetaloo W-1 well targeting the unexplored southern Beetaloo Basin for shale and hybrid shale-sand plays in the Velkerri and Kyalla formations, was spudded on 22 July 2016.

On 14 September 2016 Falcon provided the following technical and operational update:

- Drilling operations were successfully concluded on the Beetaloo W-1 well. Results encountered were very encouraging, with the well drilled to a total depth ("**TD**") of 3,173 meters.
- Rig 185 was released and demobilized.
- Hydraulic stimulation of the horizontal Amungee NW-1H well was completed.
- The newly elected Government introduced a moratorium on hydraulic fracturing in the Northern Territory, Australia effective from 14 September 2016. The joint venture will work with the new Government to understand their moratorium policy and shall cooperate with them as required during their scientific inquiry.

On 29 September 2016 Falcon provided the following technical update regarding the hydraulic stimulation of the horizontal Amungee NW-1H well:

- 11 hydraulic stimulation stages along the 1,000 meter horizontal section in the Middle Velkerri B shale zone were completed.
- Stimulation treatments were successfully executed, with 95% of programmed proppant placed.
- Flow back of hydraulic fracture stimulation fluid to surface was continuing.
- Early stage gas flow rates through the 4.5" casing were encouraging.
- The rates regularly exceed 1 million standard cubic feet per day ("**MMscf/d**"), and consistently ranged between 0.4 - 0.6 MMscf/d.
- A workover rig was being mobilised to run production tubing and to commence an extended production test.

On 12 October 2016 Falcon announced that Origin had submitted a notification of discovery and an initial report on discovery ("**Notification of Discovery**") to the Department of Primary Industry and Resources of the Northern Territory, Australia ("**DPIR**") on the Amungee NW-1H well. The Notification of Discovery is a requirement per the *Reporting a Petroleum Discovery Guideline* under the NT Petroleum Act. Details of Notification of Discovery from Origin to the DPIR are as follows:

- Origin had gathered sufficient data to confirm the discovery of a petroleum accumulation.
- Production test data supported by petrophysical log data along with full and sidewall core analysis confirmed the discovery.
- Gas rates ranged between 0.8 and 1.2 MMscf/d with continuing flow back of hydraulic fracture stimulation fluid of volumes between 100 and 400 barrels per day.
- Initial estimates suggest a dry gas composition with less than 4% CO_2.
- Main physical properties of the discovered accumulation were thickness of 30 meters, between 4.0% and 7.5% porosity, a gas saturation range of 50% to 75%, and permeability between 50 and 500 nano-Darcy.
- Evaluation to determine the resource size is underway.

The Group had previously 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 will delay the completion of the nine well programme. Origin intends meeting with the DPIR soon to agree a revised timetable, taking into account any delays the moratorium will have on the drilling and exploration programme.

7. Property, plant and equipment

	Canadian natural gas interests $'000	**Pipeline and facilities $'000**	**Furniture and equipment $'000**	**Total $'000**
Cost:				
At 1 January 2016	**466**	**4,108**	**190**	**4,764**
Additions	**-**	**-**	**4**	**4**
Disposal	**-**	**-**	**(148)**	**(148)**
At 30 September 2016	**466**	**4,108**	**46**	**4,620**
Depreciation and impairment:				
At 1 January 2016	**(466)**	**(4,108)**	**(126)**	**(4,700)**
Depreciation	**-**	**-**	**(12)**	**(12)**
Disposal	**-**	**-**	**102**	**102**
At 30 September 2016	**(466)**	**(4,108)**	**(36)**	**(4,610)**
Net book value:				
At 30 September 2016	**-**	**-**	**10**	**10**

	Canadian natural gas interests $'000	**Pipeline and facilities $'000**	**Furniture and equipment $'000**	**Total $'000**
Cost:				
At 1 January 2015	466	4,108	2,713	7,287
Disposals	-	-	(2,523)	(2,523)
At 31 December 2015	466	4,108	190	4,764
Depreciation:				
At 1 January 2015	(466)	(4,108)	(2,610)	(7,184)
Depreciation	-	-	(39)	(39)
Disposals	-	-	2,523	2,523
At 31 December 2015	(466)	(4,108)	(126)	(4,700)
Net book value:				
At 31 December 2015	-	-	64	64

8. Restricted cash

Restricted cash includes cash held by financial institutions as collateral for ongoing Group operations. In January 2015, the Group placed $2.0 million on deposit for the benefit of the Hungarian mining authority as a security deposit with regards the Group's decommissioning obligations.

	30 September 2016 $'000	31 December 2015 $'000
Restricted cash	**2,296**	2,239
	2,296	2,239

9. Cash and cash on deposit

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

	30 September 2016 $'000	31 December 2015 $'000
Cash and cash equivalents	**6,901**	10,683
Cash on deposit	**3,701**	2,000
	10,602	12,683

10. Share based compensation

The Group, in accordance with the policies of the TSX-V, may grant options to directors, officers, employees and consultants, to acquire up to 10% of the Group's issued and outstanding common stock. The exercise price of each option is based on the market price of the Group's stock at the date of grant, which may be discounted in accordance with TSX-V policies. The exercise price of all options granted to date has been based on the market price of the Group's stock at the date of grant, and no options have been granted at a discount to the market price. The options can be granted for a maximum term of five years. The Group records compensation expense over the vesting period based on the fair value at the grant date of the options granted. These amounts are recorded as contributed surplus.

Any consideration paid on the exercise of these options together with the related contributed surplus associated with the exercised options is recorded as share capital. The Group incurred share based expense of $1.3 million during the period ended 30 September 2016 (2015: $0.2 million).

38.7 million options were granted in the period to 30 September 2016 at an average exercise price of CDN$0.11. One third of the options vested immediately with an additional one third vesting on each subsequent anniversary until the options are fully vested on 14 January 2018.

Six million options were granted in the period to 30 September 2015 at an average exercise price of CDN$0.15. Three million of the options vest equally at the grant anniversary date over three years; with the remaining 3 million options having vested at the time of grant.

10. Share based compensation (continued)

A summary of the Group's stock option plan as of 30 September 2016 and 31 December 2015 and changes during the periods then ended, is presented below:

	Nine months ended 30 September 2016		Year ended 31 December 2015	
	Number of options	**Weighted average exercise price CDN$**	Number of options	Weighted average exercise price CDN$
Outstanding as at beginning of period	**31,440,000**	**0.15**	30,085,333	0.15
Granted	**38,700,000**	**0.11**	6,000,000	0.15
Forfeited	**(5,700,000)**	**0.16**	(3,312,000)	0.17
Expired	**(15,340,000)**	**0.15**	(1,333,333)	0.21
Outstanding as at end of period	**49,100,000**	**0.12**	31,440,000	0.15
Exercisable as at end of period	**23,100,000**	**0.12**	27,073,334	0.15

The exercise prices of the outstanding options are as follows:

Date of grant	**Options**	**Exercise price CDN$**	**Date of Expiry**	**Weighted average contractual life remaining (years)**
1 May 2012	6,000,000	0.10	1 May 2017	0.58
30 April 2013	2,100,000	0.24	29 April 2018	1.58
26 January 2015	5,000,000	0.15	25 January 2020	3.32
15 January 2016	36,000,000	0.11	14 January 2021	4.29
	49,100,000			

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

	2016	**2015**
Fair value as at grant date	CDN$0.06	CDN$0.05
Share price as at grant date	CDN$0.11	CDN$0.11
Exercise price	CDN$0.11	CDN$0.15
Volatility	78.05%	75.35%
Expected option life	3.83 years	3.88 years
Dividends	Nil	Nil
Risk - free interest rate	0.404%	0.788%

11. Determination of fair values

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

Cash and cash on deposit, restricted cash, accounts receivable, accounts payable and accrued expenses
As at 30 September 2016 and 31 December 2015, the fair value of cash and cash on deposit, restricted cash, accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short term to maturity.

12. Financial Instruments and risk management

The following tables provide fair value measurement information for financial assets and liabilities as at 30 September 2016 and 31 December 2015. The carrying value of cash and cash on deposit, restricted cash, accounts receivable, and accounts payable and accrued expenses included in the consolidated statement of financial position approximate fair value due to the short term nature of those instruments.

	30 September 2016		31 December 2015	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Financial assets:				
Cash and cash on deposit including restricted cash	**12,898**	**12,898**	14,922	14,922
Accounts receivable	**237**	**237**	290	290
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**634**	**634**	961	961

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 September 2016		
Financial liabilities:		
Hess warrant	**204**	**204**
31 December 2015		
Financial liabilities:		
Hess warrant	435	435

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

13. Derivative liabilities

Derivative liabilities consist of the fair value of a warrant. Changes in the fair value of the derivative liabilities are recorded in the Consolidated Statement of Operations and Comprehensive Loss. The composition of the derivative liabilities as at 30 September 2016 and 31 December 2015, and the changes therein for the period then ended, are as follows:

	Hess Warrant $'000	Total $'000
At 1 January 2015	514	514
Derivative gain – unrealised – outstanding warrant	(79)	(79)
At 31 December 2015 - current	435	435
Derivative gain – unrealised – outstanding warrant	**(231)**	**(231)**
At 30 September 2016 - current	**204**	**204**

The terms of the warrant are as follows:

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

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

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

	Hess Warrant 30 September 2016	Hess Warrant 31 December 2015
Number	**10,000,000**	10,000,000
Expiry	**13 January 2020**	13 January 2020
Exercise price	**CDN$0.19**	CDN$0.19
Volatility	**75.40%**	78.32%
Expected warrant life	**3.29**	4.04 years
Dividends	**Nil**	Nil
Risk-free rate	**0.53%**	0.61%

14. Decommissioning provision

A reconciliation of the decommissioning provision for the period ended 30 September 2016 and the year ended 31 December 2015 is provided below:

	2016 **$'000**	2015 $'000
Balance as at beginning of period	**9,565**	9,493
Revision to provisions	**2**	(51)
Accretion	**93**	123
Non – current; Balance at end of period	**9,660**	9,565

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 $9.6 million as at 30 September 2016 (2015: $8.7 million) based on an undiscounted total future liability of $11.1 million (2015: $10.1 million). These payments are expected to be made over approximately the next 12 years. The discount factor, being the risk free rate related to the liability, was 1.3% as at 30 September 2016 (2015: 1.3%).

15. Accounts payable and accrued expenses

	30 September 2016 $'000	31 December 2015 $'000
Current		
Accounts payable	**104**	314
Accrued expenses	**519**	604
Royalties payable	**11**	9
Restructuring provision	**-**	34
	634	961

16. Related party transactions

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

Senzus Kft
On 1 January 2013, Senzus Kft. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The agreement was terminated on 28 April 2015. A separate agreement was entered into on 28 April 2015, which expired on 31 March 2016. The contract was renewed with an effective date of 1 April 2016. Senzus Kft. was paid a consultancy fee of $77,664 during the period ended 30 September 2016 (2015: $49,527).

Oakridge Financial Management Inc.
The Group has engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canadian Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc. The Group has incurred costs of approximately CDN$473 (2015: CDN$630) to Oakridge Financial Management Inc. during the period ended 30 September 2016.

17. Commitments

Australia - Beetaloo Basin, Northern Territory, Australia
The work commitment on the Beetaloo Basin, Northern Territory, Australia is aligned with the farm-out agreement entered into by Falcon Australia with Sasol and Origin in August 2014.

The Group has planned a 9 well drilling programme with its farm-out partners. The details are as follows:

- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns.
- 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.
- 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.

The completion dates for each of the respective phases outlined above will be revised following discussions between Origin and the DPIR, which will take place soon. This is due to the introduction of a moratorium on hydraulic fracturing.

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. 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 25 November 2016.

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