Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended 30 September 2017 and 2016

(Presented in U.S. Dollars)

23 November 2017

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 2017 and 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 2017 $'000**	Three months ended 30 September 2016 $'000	**Nine months ended 30 September 2017 $'000**	Nine months ended 30 September 2016 $'000
Revenue					
Oil and natural gas revenue	3	**2**	3	**7**	4
		2	3	**7**	4
Expenses					
Exploration and evaluation expenses		**(53)**	(77)	**(178)**	(265)
Production and operating expenses		**(4)**	(4)	**(10)**	(12)
Depreciation	7	**(1)**	(1)	**(3)**	(12)
General and administrative expenses		**(528)**	(440)	**(1,489)**	(1,584)
Share based compensation	10	**(137)**	(222)	**(550)**	(1,252)
Foreign exchange gain		**71**	10	**217**	28
Other Income		**1**	2	**1**	2
		(651)	(732)	**(2,012)**	(3,095)
Results from operating activities		**(649)**	(729)	**(2,005)**	(3,091)
Fair value (loss) / gain – outstanding warrant	13	**(116)**	169	**(1,970)**	231
Finance income	4	**43**	6	**128**	33
Finance expense	4	**(48)**	(31)	**(144)**	(93)
Net finance expense		**(5)**	(25)	**(16)**	(60)
Loss and comprehensive loss for the period		**(770)**	(585)	**(3,991)**	(2,920)
Loss and comprehensive loss attributable to:					
Equity holders of the company		**(770)**	(586)	**(3,990)**	(2,918)
Non-controlling interests		**-**	1	**(1)**	(2)
Loss and comprehensive loss for the period		**(770)**	(585)	**(3,991)**	(2,920)
Loss per share attributable to equity holders of the company:					
Basic and diluted	5	(0.001 cent)	(0.001 cent)	(0.004 cent)	(0.003 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 2017 $'000	At 31 December 2016 $'000
Assets			
Non-current assets			
Exploration and evaluation assets	6	**39,630**	39,618
Property, plant and equipment	7	**4**	7
Trade and other receivables		**37**	34
Restricted cash	8	**2,374**	2,151
		42,045	41,810
Current assets			
Cash and cash on deposit	9	**9,433**	10,127
Trade and other receivables		**203**	190
		9,636	10,317
Total assets		**51,681**	52,127
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital		**383,533**	382,853
Contributed surplus		**44,801**	44,251
Retained deficit		**(390,219)**	(386,229)
		38,115	40,875
Non-controlling interests		**702**	703
Total equity		**38,817**	41,578
Liabilities			
Non-current liabilities			
Decommissioning provision	14	**9,838**	9,690
		9,838	9,690
Current liabilities			
Accounts payable and accrued expenses	15	**829**	632
Derivative financial liabilities	13	**2,197**	227
		3,026	859
Total liabilities		**12,864**	10,549
Total equity and liabilities		**51,681**	52,127

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 2016		382,853	42,916	(382,542)	**43,227**	706	**43,933**
Share based compensation	10	-	1,252	-	**1,252**	-	**1,252**
Loss and total comprehensive 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**
At 1 January 2017		382,853	44,251	(386,229)	**40,875**	703	**41,578**
Share based compensation	10	-	550	-	**550**	-	**550**
Loss and total comprehensive loss for the period		-	-	(3,990)	**(3,990)**	(1)	**(3,991)**
Options Exercised		680	-	-	**680**	-	**680**
At 30 September 2017		**383,533**	**44,801**	**(390,219)**	**38,115**	**702**	**38,817**

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	
	Notes	**2017 $'000**	2016 $'000
Cash flows from operating activities			
Net loss for the period		**(3,991)**	(2,920)
Adjustments for:			
Share based compensation	10	**550**	1,252
Depreciation	7	**3**	12
Fair value loss / (gain) - outstanding warrant	13	**1,970**	(231)
Net finance expense	4	**16**	60
Effect of exchange rates on operating activities		**(217)**	(28)
Change in non-cash working capital:			
Trade and other receivables		**(16)**	53
Accounts payable and accrued expenses		**195**	(206)
Interest received	4	**50**	31
Net cash used in operating activities		**(1,440)**	(1,977)
Cash flows from investing activities			
Decrease / (increase) in cash deposits – other receivables		**4,270**	(1,701)
Exploration and evaluation assets		**(12)**	(110)
Net cash generated from / (used in) investing activities		**4,258**	(1,811)
Cash flows from financing activities			
Proceeds from the exercise of share options		**680**	-
Net cash generated from financing activities		**680**	-
Change in cash and cash equivalents		**3,498**	(3,788)
Effect of exchange rates on cash & cash equivalents		**78**	6
Cash and cash equivalents at beginning of period		**5,857**	10,683
Cash and cash equivalents at end of period	9	**9,433**	6,901

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 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 2016 (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 2017.

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 2017					
Revenue	**-**	**-**	**-**	**7**	**7**
Net loss (i)	**(336)**	**(291)**	**(357)**	**(3,007)**	**(3,991)**
At 30 September 2017					
Capital assets (ii)	**39,630**	**-**	**-**	**4**	**39,634**

	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

(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	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
Finance income					
Interest income on bank deposits		**5**	6	**50**	31
Net foreign exchange gain		**38**	-	**78**	2
		43	6	**128**	33
Finance expense					
Accretion of decommissioning provisions	14	**(48)**	(31)	**(144)**	(93)
		(48)	(31)	**(144)**	(93)
Net finance expense		**(5)**	(25)	**(16)**	(60)

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	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Loss attributable to equity holders of the company	**(770)**	(586)	**(3,990)**	(2,918)
Weighted average number of common shares in issue - (thousands)	930,204	921,538	930,204	921,538
Loss / diluted loss per share	**(0.001 cent)**	(0.001 cent)	**(0.004 cent)**	(0.003 cent)

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

	Australia	**Total**
	$'000	**$'000**
At 1 January 2017	**39,618**	**39,618**
Addition	**12**	**12**
At 30 September 2017	**39,630**	**39,630**

	Australia	Total
	$'000	$'000
At 1 January 2016	39,619	39,619
Disposals	(1)	(1)
At 31 December 2016	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[(1)] 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 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.

(1) Falcon announced on 5 May 2017 that Origin had acquired Sasol's interest in the Permits. This is subject to Government approval and until such time that approval is granted, there are three registered holders of the Permits.

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

- Farminees to 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.

With respect to the transaction details above, it was announced on 5 May 2017 that Origin had acquired Sasol's 35% interest in the Permits. Origin will now assume 100% of the future costs of the farm-out as outlined above. Further details of the announcement are included on page 14 of this document.

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 ("**EPT**").

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.

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

On 15 February 2017 Falcon announced that Origin had submitted the Results of Evaluation of the Discovery and Preliminary Estimate of Petroleum in Place for the Amungee NW-1H Velkerri B Shale Gas Pool, the ("**Discovery Evaluation Report**") to the Northern Territory Government.

The submission followed the completion of extended production testing at the Amungee NW-1H exploration well of the "B Shale" member of the Middle Velkerri formation.

In addition, Origin undertook a resource study based on the Amungee NW-1H well results and other key wells in the Beetaloo Basin including regional seismic data to determine a best estimate ("**2C**") contingent resource estimate for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117.

Key Details of the Discovery Evaluation Report

The Discovery Evaluation Report was submitted in compliance with Section 64 of the Northern Territory Petroleum Act (2016) and as per the Reporting a Petroleum Discovery Guideline. The Report followed the initial submission of the Notification of Discovery in October 2016. The Discovery Evaluation Report provides the following volumetric estimates and recovery / utilisation factors for the B Shale member of the Middle Velkerri formation within permits EP76, EP98, and EP117.

Middle Velkerri B Shale Volumetric Estimates as of 15 February, 2017 (1)		
	Gross	**Net Attributable (2)**
	Best Estimate	**Best Estimate**
Area km^2 (**3**)	16,145	4,751
Original Gas In Place ("**OGIP**") (TCF) (**4**)	496	146
Combined Recovery / Utilisation Factor (**5**)	16%	16%
Technically Recoverable Resource (TCF)	85	25
OGIP Concentration (BCF/km^2) (**6**)	31	31

1 The Report and estimates included in the table above were not prepared in accordance with the Canadian Oil and Gas Evaluation Handbook ("**COGEH**")
2 Falcon's working interest is 29.43%, net attributable numbers do not incorporate royalties over the permits
3 Area defined by a depth range at a maturity cut-off consistent with the dry gas window within the Beetaloo JV Permits (EP79, EP98, EP117)
4 Trillion cubic feet
5 The combined recovery/utilization factor range was applied stochastically to the OGIP range to calculate the range of technically recoverable resource within the Beetaloo JV permits.
6 Billion cubic feet per square kilometre

Understanding the factors controlling deliverability and recovery as well as spatial variation within the gas play/shale pool are in their infancy. A quantitative assessment of the aggregated estimated recoverable resource of the gas play that can handle these complexities will require a statistically significant number of wells testing the gas play. As there is only a single production test within the gas play Origin decided upon a qualitative assessment approach instead to estimate the technically recoverable resource. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

Factors considered in the qualitative assessment of technically recoverable hydrocarbon resource in the gas play were the stimulated rock volume recovery factor range, the subsurface utilization factor range and surface utilization factor range.

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

Origin's Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117

Origin also prepared a contingent resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data.

Assessment of 2C Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117 as of 15 February, 2017[1]		
Measured and Estimated Parameters	**Units**	**Best Estimate**
Area [2]	km^2	1,968
OGIP [3]	TCF	61.0
Gross Contingent Resource[4]	TCF	6.6
Net Contingent Resource[4,5]	TCF	1.94

[1] Contingent resource estimates were prepared on a statistical aggregation basis and in accordance with the Society of Petroleum Engineers Petroleum Resources Management System ("**SPE-PRMS**"). SPE-PRMS was developed by an international group of reserves evaluation experts and endorsed by the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, and the Society of Exploration Geophysicists. Contingent resource estimates are those quantities of gas (produced gas minus carbon dioxide and inert gasses) that are potentially recoverable from known accumulations but which are not yet considered commercially recoverable due to the need for additional delineation drilling, further validation of deliverability and original gas in place, and confirmation of prices and development costs. If the estimates were to be prepared in accordance with COGEH, Falcon is highly confident that there would be no change to the contingent resource estimates above.
[2] P50 area from the contingent resource area distribution
[3] OGIP presented is the product of the P50 Area by the P50 OGIP per km^2
[4] Estimated Gas Contingent Resource category of 2C. There is no certainty that it will be commercially viable to produce any portion of the resources
[5] Net to Falcon's 29.43% working interest in EP76, EP98, and EP117, net contingent resource number does not incorporate royalties over the permits

As noted in Origin's press release the "*The contingent resource estimates contained in [their] report are based on, and fairly represents, information and supporting documentation that have been prepared by Alexander Côté who is a full-time Origin employee and a Qualified Reserves and Resource Evaluator. Mr Côté is a registered professional engineer with specialised unconventional gas resource characterisation and development experience. Mr Côté has consented to the form and context in which these statements appear*". Mr Côté is a member of the Association of Professional Engineers and Geoscientists of Alberta.

Drilling Operations

Since the introduction of a moratorium on hydraulic fracturing in September 2016, the Northern Territory Government established an independent scientific inquiry.

The Group had originally 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. The DPIR have granted an extension of an additional twelve months for the completion of the remaining work programme.

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

Further information relating to the disclosure of the contingent gas resource estimates

Well Name	Amungee NW-1H
Permit / location	EP98 (onshore Beetaloo Basin Northern Territory, Australia)
Working interest in well	Falcon 29.43%
Product type	Shale gas
Geological rock type of formation drilled	Organic rich shale (mudstone and siltstone)
Depth of zones tested	~2170-2190 metres below sea level
Type of test	Production test following hydraulic fracture stimulation
Hydrocarbon phases recovered	Gas (Approximate composition: methane ~92%, ethane+ ~3%, carbon dioxide and inerts ~5%)
Flow rates and volumes	Average rate (57 days): 1.1 MMscf/d, Final production rate: 1.07 MMscf/d, Cumulative production: 63 MMscf
Number of fracture stimulation stages	11 stages (average size ~ 100 ton per stage)
Risks and level of uncertainty with recovery of resources	Risks and uncertainties include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, completing longer-duration production testing above the 57 days conducted on Amungee NW-1H, reducing well costs with scale of activity, establishing gas sales agreements and building infrastructure to connect the resource to market. Contingent on the moratorium being lifted, additional appraisal drilling is planned (as per the work program associated with the permits), along with hydraulic fracture stimulation and testing to assess deliverability and move the project towards commercialisation.
Significant positive and negative factors relevant to the estimate	Significant positive factors relevant to the estimate of the contingent resources include the successful well test at Amungee NW-1H which produced enough gas to surface to be of commercial interest; core and log data from Amungee NW-1H, Beetaloo W-1, Kalala S-1, Tanumbirini-1, McManus-1, Altree-2 and Walton-2 provide convincing evidence of a significant volume of moveable hydrocarbons; and the Marcellus Shale (Pa., USA) and Barnett Shale (Tx., USA) are analogous, commercially-productive fields that are similar to the Velkerri B Shale reservoir. Significant negative factors include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, the limited number of wells on the Company's acreage, lack of a developed service sector providing uncertainty regarding estimates of capital and operating costs, developing hydrocarbon regulations and environmental legislation and the requirement to obtain social acceptability for oil and gas operations.
Commerciality	Currently this project is based on a conceptual study. The economic status is undetermined at this time. The contingent resources will continue to be assessed as additional appraisal wells are drilled and tested in order to better evaluate the commercial potential of the play. After a sufficient number of wells have been drilled to demonstrate that the project is technically feasible and a development plan has been generated, economics can be run to determine commerciality of production.

On **5 May 2017**, Falcon announced that Origin had acquired Sasol's 35% interest in in the Beetaloo joint venture, bringing its interest to 70%. Sasol departs the joint venture to focus its capital investment on its African and North American footprint. This transaction is subject to the satisfaction of certain conditions, including Government approval.

The transaction will not impact Falcon's 2014 farm-out agreement as Origin will now assume 100% of the future costs of the farm-out.

On **7 November 2017**, Falcon noted the publication of community update number 25 by the scientific inquiry into hydraulic fracturing in the Northern Territory. The draft Final Report, which was due to be published in early November 2017, will now be released mid-December 2017, with the Final Report to be published in March 2018.

7. Property, plant and equipment

	Canadian natural gas interests $'000	**Pipeline and facilities $'000**	**Furniture and equipment $'000**	**Total $'000**
Cost:				
At 1 January 2017	**466**	**4,108**	**46**	**4,620**
At 30 September 2017	**466**	**4,108**	**46**	**4,620**
Depreciation:				
At 1 January 2017	**(466)**	**(4,108)**	**(39)**	**(4,613)**
Depreciation	**-**	**-**	**(3)**	**(3)**
At 30 September 2017	**(466)**	**(4,108)**	**(42)**	**(4,616)**
Net book value:				
At 30 September 2017	**-**	**-**	**4**	**4**

	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
Disposals	-	-	(148)	(148)
At 31 December 2016	466	4,108	46	4,620
Depreciation:				
At 1 January 2016	(466)	(4,108)	(126)	(4,700)
Depreciation	-	-	(16)	(16)
Disposals	-	-	103	103
At 31 December 2016	(466)	(4,108)	(39)	(4,613)
Net book value:				
At 31 December 2016	-	-	7	7

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8. 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 September 2017 $'000	31 December 2016 $'000
Restricted cash	**2,374**	2,151
	2,374	2,151

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 2017 $'000	31 December 2016 $'000
Cash and cash equivalents	**9,433**	5,857
Cash on deposit	**-**	4,270
	9,433	10,127

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 a share based expense of $0.6 million during the period ended 30 September 2017 (2016: $1.2 million).

Six million options were granted in the period to 30 September 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.

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 2017 and 31 December 2016 and changes during the periods then ended, is presented below:

	Nine months ended 30 September 2017		Year ended 31 December 2016	
	Number of options	**Weighted average exercise price CDN$**	Number of options	Weighted average exercise price CDN$
Outstanding as at beginning of period	**45,100,000**	**0.12**	31,440,000	0.15
Granted	**6,000,000**	**0.20**	38,700,000	0.11
Expired	**-**		(15,340,000)	0.15
Forfeited	**-**		(9,700,000)	0.14
Exercised	**(8,666,666)**	**0.10**	-	-
Outstanding as at end of period	**42,433,334**	**0.13**	45,100,000	0.12
Exercisable as at end of period	**27,433,334**	**0.13**	23,100,000	0.12

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 April 2013	2,100,000	0.24	29 April 2018	0.58
26 January 2015	5,000,000	0.15	25 January 2020	2.32
15 January 2016	29,333,334	0.11	14 January 2021	3.29
22 February 2017	6,000,000	0.20	22 February 2022	4.40
	42,433,334			

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

	2017	**2016**
Fair value as at grant date	CDN$0.12	CDN$0.06
Share price as at grant date	CDN$0.20	CDN$0.11
Exercise price	CDN$0.20	CDN$0.11
Volatility	82.42%	78.05%
Expected option life	3.83 years	3.83 years
Dividends	Nil	Nil
Risk - free interest rate	1.02%	0.404%

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 2017 and 31 December 2016, 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 2017 and 31 December 2016. 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 2017		31 December 2016	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Financial assets:				
Cash and cash on deposit including restricted cash	**11,807**	**11,807**	12,278	12,278
Accounts receivable	**226**	**226**	197	197
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**829**	**829**	632	632

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 2017		
Financial liabilities:		
Warrant	**2,197**	**2,197**
31 December 2016		
Financial liabilities:		
Warrant	227	227

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 2017 and 31 December 2016, and the changes therein for the period then ended, are as follows:

	Warrant $'000
At 1 January 2016	435
Derivative gain – unrealised – outstanding warrant	(208)
At 31 December 2016 - current	227
Derivative loss – unrealised – outstanding warrant	1,970
At 30 September 2017 - current	**2,197**

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
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 September 2017	Warrant 31 December 2016
Number	10,000,000	10,000,000
Expiry	13 January 2020	13 January 2020
Exercise price	CDN$0.19	CDN$0.19
Volatility	93.62%	79.907%
Expected warrant life	2.29 years	3.04 years
Dividends	Nil	Nil
Risk-free rate	1.53%	0.85%

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 remain unchanged, with an exercise price of CDN$0.19 per share and an expiry date of 13 January 2020.

14. Decommissioning provision

A reconciliation of the decommissioning provision for the period ended 30 September 2017 and the year ended 31 December 2016 is provided below:

	2017 $'000	2016 $'000
Balance as at beginning of period	**9,690**	9,565
Revision to provisions	**4**	1
Accretion	**144**	124
Non – current; Balance at end of period	**9,838**	9,690

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 $9.8 million as at 30 September 2017 (2016: $9.7 million) based on an undiscounted total future liability of $12 million (2016: $11.9 million). These payments are expected to be made over approximately the next 10 years. The discount factor, being the risk free rate related to the liability, was 2% as at 30 September 2017 (2016: 2%).

15. Accounts payable and accrued expenses

	30 September 2017 $'000	31 December 2016 $'000
Current		
Accounts payable	**126**	144
Accrued expenses	**688**	476
Royalties payable	**15**	12
	829	632

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 and was subsequently terminated on 28 February 2017. Senzus Kft. was paid a consultancy fee of $17,000 for the period ended 30 September 2017 (2016: $77,664).

Senzus Plus Tanácsadó Bt.
On 1 March 2017, Senzus 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 $20,753 for the period ended 30 September 2017 (2016: $0).

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$642 (2016: CDN$473) to Oakridge Financial Management Inc. during the period ended 30 September 2017.

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 Origin and Sasol in August 2014. Since 5 May 2017, the commitments of the farm-out agreement are between Falcon Australia and Origin.

The Group is conducting a nine well drilling programme with its joint venture partner, Origin. The details are as follows:

- Origin to pay for the remaining cost of completing the first five wells estimated at A$64 million, and to fund any cost overruns.
- Origin 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.
- 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.

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 in September 2016 will delay the completion of the nine well programme.

Falcon further notes that pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium, the DPIR have granted an extension of an additional twelve months for the completion of the remaining work programme.

On 7 November 2017, Falcon noted the publication of community update number 25 by the scientific inquiry into hydraulic fracturing in the Northern Territory. The draft Final Report, which was due to be published in early November 2017, will now be released mid-December 2017, with the Final Report to be published in March 2018.

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 authorized for issue on 23 November 2017.

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