



Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended 30 September 2019 and 2018

(Presented in U.S. Dollars)

21 November 2019

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 2019 and 2018, 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 Nine Months Ended 30 September 2019 and 2018

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Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Statement of Operations and Comprehensive Loss

(Unaudited)

| | Notes | Three months ended 30 September 2019 \$'000 | Three months ended 30 September 2018 \$'000 | Nine months ended 30 September 2019 \$'000 | Nine months ended 30 September 2018 \$'000 |
|---|-------|---|---|--|--|
| Revenue | | | | | |
| Oil and natural gas revenue | 3 | 1 | - | 4 | 3 |
| | | 1 | - | 4 | 3 |
| Expenses | | | | | |
| Exploration and evaluation expenses | | (36) | (35) | (185) | (114) |
| Production and operating expenses | | (3) | (3) | (9) | (12) |
| Depreciation | | (1) | - | (1) | (1) |
| General and administrative expenses | | (403) | (436) | (1,305) | (1,437) |
| Share based compensation | 9 | - | (23) | (12) | (104) |
| Foreign exchange loss | | (89) | (4) | (116) | (76) |
| | | (532) | (501) | (1,628) | (1,744) |
| Results from operating activities | | (531) | (501) | (1,624) | (1,741) |
| Fair value gain – outstanding warrant | 12 | 127 | 414 | 230 | 641 |
| Finance income | 4 | 25 | 48 | 95 | 68 |
| Finance expense | 4 | (385) | (55) | (381) | (211) |
| Net finance expense | | (360) | (7) | (286) | (143) |
| Loss and comprehensive loss for the period | | (764) | (94) | (1,680) | (1,243) |
| Loss and comprehensive loss attributable to: | | | | | |
| Equity holders of the company | | (758) | (94) | (1,675) | (1,242) |
| Non-controlling interests | | (6) | - | (5) | (1) |
| Loss and comprehensive loss for the period | | (764) | (94) | (1,680) | (1,243) |
| Loss per share attributable to equity holders of the company: | | | | | |
| Basic and diluted | 5 | (0.001 cent) | (0.000 cent) | (0.002 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 September 2019 \$'000 | At 31 December 2018 \$'000 |
|--|-------|-----------------------------------|----------------------------------|
| | Notes | | |
| Assets | | | |
| Non-current assets | | | |
| Exploration and evaluation assets | 6 | 40,220 | 39,705 |
| Property, plant and equipment | | 1 | 2 |
| Trade and other receivables | | 29 | 31 |
| Restricted cash | 7 | 2,182 | 2,294 |
| | | 42,432 | 42,032 |
| Current assets | | | |
| Cash and cash on deposit | 8 | 13,179 | 6,967 |
| Trade and other receivables | | 131 | 100 |
| | | 13,310 | 7,067 |
| Total assets | | 55,742 | 49,099 |
| Equity and liabilities | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 18 | 392,170 | 383,737 |
| Contributed surplus | | 45,075 | 45,063 |
| Retained deficit | | (393,279) | (391,604) |
| | | 43,966 | 37,196 |
| Non-controlling interests | | 695 | 700 |
| Total equity | | 44,661 | 37,896 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Decommissioning provision | 13 | 10,274 | 10,102 |
| | | 10,274 | 10,102 |
| Current liabilities | | | |
| Accounts payable and accrued expenses | 14 | 558 | 622 |
| Derivative financial liabilities | 12 | 249 | 479 |
| | | 807 | 1,101 |
| Total liabilities | | 11,081 | 11,203 |
| Total equity and liabilities | | 55,742 | 49,099 |

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 2018 | | 383,570 | 44,937 | (390,223) | 38,284 | 701 | 38,985 |
| Share based compensation | 9 | - | 104 | - | 104 | - | 104 |
| Loss and total comprehensive loss for the period | | - | - | (1,242) | (1,242) | (1) | (1,243) |
| Options Exercised | | 167 | - | - | 167 | - | 167 |
| At 30 September 2018 | | 383,737 | 45,041 | (391,465) | 37,313 | 700 | 38,013 |
| At 1 January 2019 | | 383,737 | 45,063 | (391,604) | 37,196 | 700 | 37,896 |
| Share based compensation | 9 | - | 12 | - | 12 | - | 12 |
| Loss and total comprehensive loss for the period | | - | - | (1,675) | (1,675) | (5) | (1,680) |
| Private Placement | 18 | 8,433 | - | - | 8,433 | - | 8,433 |
| At 30 September 2019 | | 392,170 | 45,075 | (393,279) | 43,966 | 695 | 44,661 |

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 | 2019 \$'000 | 2018 \$'000 |
| Cash flows from operating activities | | | |
| Net loss for the period | | (1,680) | (1,243) |
| Adjustments for: | | | |
| Share based compensation | 9 | 12 | 104 |
| Depreciation | | 1 | 1 |
| Fair value gain - outstanding warrant | 12,15 | (230) | (641) |
| Net finance expense | 4 | 286 | 143 |
| Effect of exchange rates on operating activities | | 116 | 77 |
| Change in non-cash working capital: | | | |
| Trade and other receivables | | (29) | 33 |
| Accounts payable and accrued expenses | | 23 | (118) |
| Net cash used in operating activities | | (1,501) | (1,644) |
| Cash flows from investing activities | | | |
| Decrease in cash deposits – other receivables | | - | 6,028 |
| Interest Received | | 95 | 68 |
| Exploration and evaluation assets | | (515) | (76) |
| Net cash (used in) / generated from investing activities | | (420) | 6,020 |
| Cash flows from financing activities | | | |
| Proceeds from the exercise of share options | | - | 167 |
| Net proceeds from private placement | 18 | 8,433 | - |
| Net cash generated from financing activities | | 8,433 | 167 |
| Change in cash and cash equivalents | | 6,512 | 4,543 |
| Effect of exchange rates on cash & cash equivalents | | (300) | (26) |
| Cash and cash equivalents at beginning of period | | 6,967 | 2,967 |
| Cash and cash equivalents at end of period | 8 | 13,179 | 7,484 |

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 Nine Months Ended 30 September 2019 and 2018

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.

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 2018 (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 2019.

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.

It was noted in the Consolidated Financial Statements for the year ended 31 December 2018 (“**2018 Consolidated Financial Statements**”) dated 24 April 2019, the Group’s cash and cash deposits were sufficient to cover ongoing operating costs for the 12 months from the date of signing the financial statements. Work had recommenced on the Group’s Beetaloo Sub-basin asset in the Northern Territory Australia, with the Group having entered Stage 2 of the work programme, with a Cost Cap of approximately A\$65 million, and costs above the Cost Cap to be financed by the Group in accordance with their 30% participating interest. It was further noted that the Directors and Management were confident that should funding be required it could be raised through either an equity raise or debt funding. As at the date of the 2018 Consolidated Financial Statements no such further funding had been raised and there was no certainty that sufficient funds could be raised if required, indicating the existence of a material uncertainty, which could cast significant doubt over the Group’s ability to continue as a going concern, being unable to realise its assets and discharge its liabilities in the normal course of business. Having given due consideration to the cash requirements of the Group, the Board of Directors (“**the Board**”) had a reasonable expectation that the Group had adequate resources to continue in operational existence for the foreseeable future and for this reason adopted the going concern basis in preparing the 2018 Consolidated Financial Statements.

On 17 May 2019 the Company completed a Placing and raised gross proceeds of c.£7 million (c.\$9 million) with Placées 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. Having given due consideration to the cash requirements of the Group as at the date of these financial statements, with Falcon’s net cash contribution to the first c.\$115 million of gross capex for Stage 2 and Stage 3 estimated at c.\$12 million, the Directors and Management continue to be confident that should further funding be required it could be raised through either an equity raise or debt funding and the Board continues to have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018****2. Accounting policies (continued)**

For this reason, the interim condensed consolidated financial statements for the three and nine months ended 30 September 2019 and 2018 do not include adjustments that would result if the Group was unable to continue as a going concern as the Board continues to adopt the going concern basis in preparing these consolidated financial statements 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.

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 2019 | | | | | |
| Revenue | - | - | - | 4 | 4 |
| Net loss ⁽ⁱ⁾ | (477) | (51) | (573) | (579) | (1,680) |
| At 30 September 2019 | | | | | |
| Capital assets ⁽ⁱⁱ⁾ | 40,220 | - | - | 1 | 40,221 |
| | | | | | |
| | Australia \$'000 | South Africa \$'000 | Hungary \$'000 | Other \$'000 | Total \$'000 |
| Nine months ended 30 September 2018 | | | | | |
| Revenue | - | - | - | 3 | 3 |
| Net loss ⁽ⁱ⁾ | (290) | (225) | (680) | (48) | (1,243) |
| At 30 September 2018 | | | | | |
| Capital assets ⁽ⁱⁱ⁾ | 39,706 | - | - | 2 | 39,708 |

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

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

Falcon Oil & Gas Ltd.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018**

4. Finance income and expense

| | Notes | Three months ended 30 | | Nine months ended 30 | |
|---|-------|-----------------------|-----------------------------|----------------------|-----------------------------|
| | | 2019 \$'000 | September 2018 \$'000 | 2019 \$'000 | September 2018 \$'000 |
| Finance income | | | | | |
| Interest income on bank deposits | | 25 | 37 | 95 | 68 |
| Net foreign exchange gain | | - | 11 | - | - |
| | | 25 | 48 | 95 | 68 |
| Finance expense | | | | | |
| Accretion of decommissioning provisions | 13 | (57) | (55) | (170) | (165) |
| Net foreign exchange loss | | (328) | - | (211) | (46) |
| | | (385) | (55) | (381) | (211) |
| Net finance expense | | (360) | (7) | (286) | (143) |

5. Net loss per share

Basic and diluted loss per share is calculated as follows:

| | Three months ended 30 | | Nine months ended 30 | |
|---|-----------------------|-----------------------------|----------------------|-----------------------------|
| | 2019 \$'000 | September 2018 \$'000 | 2019 \$'000 | September 2018 \$'000 |
| Loss attributable to equity holders of the company | (758) | (94) | (1,675) | (1,242) |
| Weighted average number of common shares in issue - (thousands) | 981,847 | 931,304 | 956,483 | 931,304 |
| Loss / diluted loss per share | (0.001 cent) | (0.000 cent) | (0.002 cent) | (0.001 cent) |

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

| | Australia \$'000 | Total \$'000 |
|-----------------------------|---------------------|-----------------|
| At 1 January 2019 | 39,705 | 39,705 |
| Addition | 515 | 515 |
| At 30 September 2019 | 40,220 | 40,220 |
| | Australia \$'000 | Total \$'000 |
| At 1 January 2018 | 39,630 | 39,630 |
| Additions | 75 | 75 |
| At 31 December 2018 | 39,705 | 39,705 |

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 nine months ended 30 September 2019 on pages 6-14.

Falcon Oil & Gas Ltd.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018**

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 September 2019 \$'000 | 31 December 2018 \$'000 |
|-----------------|---|-------------------------------|
| Restricted cash | 2,182 | 2,294 |
| | 2,182 | 2,294 |

8. 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 2019 \$'000 | 31 December 2018 \$'000 |
|---------------------------|---|-------------------------------|
| Cash and cash equivalents | 13,179 | 6,967 |
| Cash on deposit | - | - |
| | 13,179 | 6,967 |

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 incurred a \$12,000 share based expense during the period ended 30 September 2019 (2018: \$0.1 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 were fully vested on 22 February 2019.

Falcon Oil & Gas Ltd.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018**

9. Share based compensation (continued)

A summary of the Group's stock option plan as of 30 September 2019 and 31 December 2018 and changes during the periods then ended, is presented below:

| | Nine months ended 30 September 2019 | | Year ended 31 December 2018 | |
|---------------------------------------|-------------------------------------|---------------------------------------|-----------------------------|---------------------------------------|
| | 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 | 42,233,334 | 0.13 |
| Expired | - | - | (1,000,000) | 0.24 |
| Exercised | - | - | (900,000) | 0.24 |
| Outstanding as at end of period | 40,333,334 | 0.13 | 40,333,334 | 0.13 |
| Exercisable as at end of period | 40,333,334 | 0.13 | 38,333,334 | 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) |
|------------------|-------------------|----------------------|------------------|---|
| 26 January 2015 | 5,000,000 | 0.15 | 25 January 2020 | 0.32 |
| 15 January 2016 | 29,333,334 | 0.11 | 14 January 2021 | 1.29 |
| 22 February 2017 | 6,000,000 | 0.20 | 21 February 2022 | 2.40 |
| | 40,333,334 | 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 deposit, restricted cash, accounts receivable, accounts payable and accrued expenses

As at 30 September 2019 and 31 December 2018, 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.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018****11. Financial Instruments and risk management**

The following tables provide fair value measurement information for financial assets and liabilities as at 30 September 2019 and 31 December 2018. 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 2019 | | 31 December 2018 | |
|---|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying value \$'000 | Fair value \$'000 | Carrying value \$'000 | Fair value \$'000 |
| Financial assets: | | | | |
| Cash and cash on deposit including restricted cash | 15,361 | 15,361 | 9,261 | 9,261 |
| Accounts receivable | 152 | 152 | 121 | 121 |
| Financial Liabilities: | | | | |
| <i>Other financial liabilities</i> | | | | |
| Accounts payable and accrued expenses | 558 | 558 | 622 | 622 |

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 2019 | | |
| Financial liabilities: | | |
| Warrant | 249 | 249 |
| 31 December 2018 | | |
| Financial liabilities: | | |
| Warrant | 479 | 479 |

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 on page 14.

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**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018**

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 Loss. The composition of the derivative liabilities as at 30 September 2019 and 31 December 2018, and the changes therein for the period then ended, are as follows:

| | Warrant \$'000 |
|---|---------------------------|
| At 1 January 2018 | 1,563 |
| Derivative gain – unrealised – outstanding warrant | (1,084) |
| At 31 December 2018 - current | 479 |
| Derivative gain – unrealised – outstanding warrant | (230) |
| At 30 September 2019 - current | 249 |

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 2019 | Warrant 31 December 2018 |
|------------------------------|--------------------------------------|-------------------------------------|
| Number | 10,000,000 | 10,000,000 |
| Expiry | 13 January 2020 | 13 January 2020 |
| Exercise price | CDN\$0.19 | CDN\$0.19 |
| Volatility | 57.474% | 57.271% |
| Expected warrant life | 0.29 years | 1.04 years |
| Dividends | Nil | Nil |
| Risk-free rate | 1.57% | 1.85% |

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.

Falcon Oil & Gas Ltd.**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018****13. Decommissioning provision**

A reconciliation of the decommissioning provision for the period ended 30 September 2019 and the year ended 31 December 2018 is provided below:

| | 30 September 2019 \$'000 | 31 December 2018 \$'000 |
|--|---|-------------------------------|
| Balance as at beginning of period | 10,102 | 9,886 |
| Revision to provisions | 2 | (5) |
| Accretion | 170 | 221 |
| Non – current; Balance at end of period | 10,274 | 10,102 |

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 \$9.9 million as at 30 September 2019 (2018: \$9.9 million) based on an undiscounted total future liability of \$11.9 million (2018: \$12.1 million). These payments are expected to be made over approximately the next 8 years. The discount factor, being the risk-free rate related to the liability, was 2.25% as at 30 September 2019 (2018: 2.25%).

14. Accounts payable and accrued expenses

| | 30 September 2019 \$'000 | 31 December 2018 \$'000 |
|-------------------|---|-------------------------------|
| Current | | |
| Accounts payable | 85 | 140 |
| Accrued expenses | 453 | 464 |
| Royalties payable | 20 | 18 |
| | 558 | 622 |

15. Note supporting statement of cash flows

| | Notes | Derivative liability \$'000 |
|--|--------------|--|
| At 1 January 2019 | | 479 |
| Non-cash flows – fair value gains unrealised | 12 | (230) |
| At 30 September 2019 | | 249 |

Falcon Oil & Gas Ltd.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) For the Three and Nine Months Ended 30 September 2019 and 2018

16. Related party transactions

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

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. The contract was subsequently terminated with effect on 28 February 2018. There was no consultancy fee for the period ended 30 September 2019 (2018: \$9,700).

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 \$26,215 for the period ended 30 September 2019 (2018: \$18,430).

Oakridge Financial Management Inc.

The Group previously engaged Oakridge Financial Management Inc. ("**Oakridge**") to assist in submitting returns to the Canada Revenue Agency ("CRA"). Mr. Greg Smith, a current director of Falcon, is the sole shareholder of Oakridge. Oakridge no longer provides assistance for returns submitted to the CRA, therefore the Group did not incur costs during the period ended 30 September 2019 (2018: CDN\$472).

17. Commitments

Australia - Beetaloo 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 Energy B2 Pty Ltd. ("**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 need to be financed by the Group in accordance with their 30% participating interest. Stage 2 of the work programme has commenced and as at the date of these interim financial statements, Falcon's net cash contribution to the first c.\$115 million of gross capex for Stage 2 and Stage 3 is estimated at c.\$12 million.

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 has 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. Drilling has commenced, with the spudding of the Kyalla 117 N2 well in October 2019. For further details on Kyalla 117 N2 please refer to the Management's Discussion & Analysis document for the three and nine months ended 30 September 2019 on page 14.

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.

Falcon Oil & Gas Ltd.

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)
For the Three and Nine Months Ended 30 September 2019 and 2018**

18. Share capital

As at 30 September 2019 and 31 December 2018, 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 2018 | 930,404,183 | 383,570 |
| Options exercised in 2018 | 900,000 | 167 |
| At 31 December 2018 | 931,304,183 | 383,737 |
| Private placement – May 2019 | 50,543,242 | 8,996 |
| Private placement – May 2019 - expenses | - | (563) |
| At 30 September 2019 | 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. 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. 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 21 November 2019.

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