



Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Financial Statements
Three and Nine Months Ended 30 September 2020 and 2019

(Presented in U.S. Dollars)

26 November 2020

To the shareholders of Falcon Oil & Gas Ltd.

Notice of No Auditor Review

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

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

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

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Falcon Oil & Gas Ltd.

Interim Condensed Consolidated Statement of Operations and Comprehensive Loss

(Unaudited)

| | Notes | Three months ended 30 September 2020 \$'000 | Three months ended 30 September 2019 \$'000 | Nine months ended 30 September 2020 \$'000 | Nine months ended 30 September 2019 \$'000 |
|---|-------|---|---|--|--|
| Revenue | | | | | |
| Oil and natural gas revenue | 3 | 1 | 1 | 3 | 4 |
| | | 1 | 1 | 3 | 4 |
| Expenses | | | | | |
| Exploration and evaluation expenses | | (37) | (36) | (110) | (185) |
| Production and operating expenses | | (3) | (3) | (8) | (9) |
| General and administrative expenses | | (415) | (404) | (1,415) | (1,306) |
| Share based compensation | 9 | - | - | - | (12) |
| Foreign exchange gain / (loss) | | 29 | (89) | 18 | (116) |
| | | (426) | (532) | (1,515) | (1,628) |
| Results from operating activities | | (425) | (531) | (1,512) | (1,624) |
| Fair value gain – outstanding warrant | 12 | - | 127 | 110 | 230 |
| Finance income | 4 | 337 | 25 | 189 | 95 |
| Finance expense | 4 | (58) | (385) | (174) | (381) |
| Net finance income / (expense) | | 279 | (360) | 15 | (286) |
| Loss and comprehensive loss for the period | | (146) | (764) | (1,387) | (1,680) |
| Loss and comprehensive loss attributable to: | | | | | |
| Equity holders of the company | | (150) | (758) | (1,388) | (1,675) |
| Non-controlling interests | | 4 | (6) | 1 | (5) |
| Loss and comprehensive loss for the period | | (146) | (764) | (1,387) | (1,680) |
| Loss per share attributable to equity holders of the company: | | | | | |
| Basic and diluted | 5 | (0.000 cent) | (0.001 cent) | (0.001 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)

| | | At 30 September 2020 \$'000 | At 31 December 2019 \$'000 |
|--|-------|-----------------------------------|----------------------------------|
| | Notes | | |
| Assets | | | |
| Non-current assets | | | |
| Exploration and evaluation assets | 6 | 40,294 | 40,246 |
| Property, plant and equipment | | 1 | 1 |
| Trade and other receivables | | 21 | 30 |
| Restricted cash | 7 | 2,317 | 2,241 |
| | | 42,633 | 42,518 |
| Current assets | | | |
| Cash and cash equivalents | 8 | 11,485 | 13,066 |
| Trade and other receivables | | 162 | 141 |
| | | 11,647 | 13,207 |
| Total assets | | 54,280 | 55,725 |
| Equity and liabilities | | | |
| Equity attributable to owners of the parent | | | |
| Share capital | 18 | 392,170 | 392,170 |
| Contributed surplus | | 45,075 | 45,075 |
| Retained deficit | | (394,731) | (393,343) |
| | | 42,514 | 43,902 |
| Non-controlling interests | | 701 | 700 |
| Total equity | | 43,215 | 44,602 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Decommissioning provision | 13 | 10,503 | 10,331 |
| | | 10,503 | 10,331 |
| Current liabilities | | | |
| Accounts payable and accrued expenses | 14 | 562 | 682 |
| Derivative financial liabilities | 12 | - | 110 |
| | | 562 | 792 |
| Total liabilities | | 11,065 | 11,123 |
| Total equity and liabilities | | 54,280 | 55,725 |

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

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

| | Notes | Share capital \$'000 | Contributed surplus \$'000 | Retained deficit \$'000 | Equity interests of the parent \$'000 | Non-Controlling interests ("NCI") \$'000 | Total equity \$'000 |
|--|-------|-------------------------|-------------------------------|----------------------------|--|---|------------------------|
| At 1 January 2019 | | 383,737 | 45,063 | (391,604) | 37,196 | 700 | 37,896 |
| Share based compensation | 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 |
| At 1 January 2020 | | 392,170 | 45,075 | (393,343) | 43,902 | 700 | 44,602 |
| Loss and total comprehensive loss for the period | | - | - | (1,388) | (1,388) | 1 | (1,387) |
| At 30 September 2020 | | 392,170 | 45,075 | (394,731) | 42,514 | 701 | 43,215 |

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 | 2020 \$'000 | 2019 \$'000 |
| Cash flows from operating activities | | | |
| Net loss for the period | | (1,387) | (1,680) |
| Adjustments for: | | | |
| Share based compensation | 9 | - | 12 |
| Depreciation | | - | 1 |
| Fair value gain - outstanding warrant | 12,15 | (110) | (230) |
| Net finance (income) / expenses | 4 | (15) | 286 |
| Effect of exchange rates on operating activities | | (18) | 116 |
| Change in non-cash working capital: | | | |
| Increase in trade and other receivables | | (12) | (29) |
| (Decrease) / increase in accounts payable and accrued expenses | | (134) | 23 |
| Net cash used in operating activities | | (1,676) | (1,501) |
| Cash flows from investing activities | | | |
| Interest received | | 16 | 95 |
| Exploration and evaluation assets | | (48) | (515) |
| Net cash used in investing activities | | (32) | (420) |
| Cash flows from financing activities | | | |
| Net proceeds from private placement | 18 | - | 8,433 |
| Net cash generated from financing activities | | - | 8,433 |
| Change in cash and cash equivalents | | (1,708) | 6,512 |
| Effect of exchange rates on cash & cash equivalents | | 127 | (300) |
| Cash and cash equivalents at beginning of period | | 13,066 | 6,967 |
| Cash and cash equivalents at end of period | 8 | 11,485 | 13,179 |

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 2020 and 2019

1. General Information

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

Falcon is incorporated in British Columbia, Canada and headquartered in Dublin, Ireland with a technical team based in Budapest, Hungary. Falcon’s common shares are traded on Toronto’s TSX Venture Exchange (“**TSX-V**”) (symbol: FO.V); and AIM, a market operated by the London Stock Exchange (symbol: FOG).

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

2. Accounting policies

Basis of preparation and going concern

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

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

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

Having given due consideration to the cash requirements of the Group, the Board of Directors (“**the Board**”) has a reasonable expectation that the Group will have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. On 26 March 2020 given the unprecedented circumstances brought about by COVID-19 the joint venture decided to temporarily pause activities to the latter half of 2020, which resulted in reduced project costs for a number of months. Furthermore, on 7 April 2020 it was announced that Falcon Australia had agreed to farm down 7.5% of its participating interest in the Exploration Permits, following the transaction, Falcon Australia holds a 22.5% participating interest. In consideration for the farm down Origin Energy B2 Pty Ltd. (“**Origin**”) agreed to increase the gross cost cap of the work program by A\$150.5 million. The previous farm-in arrangement included a Stage 2 gross cost cap of A\$65.3 million and a Stage 3 gross cost cap of A\$48 million, or A\$113.3 million in total. Under the Agreements, the Stage 2 and Stage 3 gross cost caps will be combined and increased by A\$150.5 million to A\$263.8 million. Northern Territory government approval remains outstanding; however, management expects this will be received in due course. On 25 November 2020 it was announced that while the Kyalla 117 N2-1H ST2 well (“**Kyalla 117**”) continues to flow back fracture stimulation fluid, with some gas shows; a measurable gas breakthrough that would allow the commencement of extended production testing to assess the extent of the resource that may be present has yet to occur. Operations are now being planned to re-enter Kyalla 117 with coiled tubing and apply nitrogen lift techniques to lower pressures in Kyalla 117 and assist with achieving and sustaining gas breakthrough that, if successful, will allow extended production testing to commence. The joint venture is continually responding to data gathered through operations to inform ongoing activities. For the reasons set out above, the Board continues to adopt the going concern basis in preparing these consolidated financial statements which assumes the Group will be able to realise its assets and discharge its liabilities as they fall due for at least twelve months from the date of approval of these financial statements.

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

The Group notes the introduction of IFRS 16 Leases, effective from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

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

3. Segment information

Based on internal reporting information, it was determined that there is one reportable segment. All of the Group's operations are in the petroleum and natural gas industry with its principal business activity being in the 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 2020 | | | | | |
| Revenue | - | - | - | 3 | 3 |
| Net loss ⁽ⁱ⁾ | (249) | (49) | (371) | (719) | (1,388) |
| At 30 September 2020 | | | | | |
| Capital assets ⁽ⁱⁱ⁾ | 40,294 | - | - | 1 | 40,295 |

| | 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) | (574) | (1,675) |
| At 30 September 2019 | | | | | |
| Capital assets ⁽ⁱⁱ⁾ | 40,220 | - | - | 1 | 40,221 |

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

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

Falcon Oil & Gas Ltd.

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

4. Finance income and expense

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|---|-------|------------------------------------|----------------|-----------------------------------|----------------|
| | | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Finance income | | | | | |
| Interest income on bank deposits | | 1 | 25 | 16 | 95 |
| Net foreign exchange gain | | 336 | - | 173 | - |
| | | 337 | 25 | 189 | 95 |
| Finance expense | | | | | |
| Accretion of decommissioning provisions | 13 | (58) | (57) | (174) | (170) |
| Net foreign exchange loss | | - | (328) | - | (211) |
| | | (58) | (385) | (174) | (381) |
| Net finance income / (expense) | | 279 | (360) | 15 | (286) |

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 | |
|---|------------------------------------|----------------|-----------------------------------|----------------|
| | 2020 \$'000 | 2019 \$'000 | 2020 \$'000 | 2019 \$'000 |
| Loss attributable to equity holders of the company | (150) | (758) | (1,388) | (1,675) |
| Weighted average number of common shares in issue - (thousands) | 981,847 | 981,847 | 981,847 | 956,483 |
| Loss / diluted loss per share | (0.000 cent) | (0.001 cent) | (0.001 cent) | (0.002 cent) |

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

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

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

For detailed discussion on the exploration and evaluation assets, please refer to the Management's Discussion & Analysis document for the three and nine months ended 30 September 2020 on pages 5-10.

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

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

| | 30 September 2020 \$'000 | 31 December 2019 \$'000 |
|-----------------|---|-------------------------------|
| Restricted cash | 2,317 | 2,241 |
| | 2,317 | 2,241 |

8. Cash and cash equivalents

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

| | 30 September 2020 \$'000 | 31 December 2019 \$'000 |
|---------------------------|---|-------------------------------|
| Cash and cash equivalents | 11,485 | 13,066 |
| | 11,485 | 13,066 |

9. Share based compensation

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

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

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

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

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

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

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

The exercise prices of the outstanding options are as follows:

| Date of grant | Options | Exercise price CDN\$ | Date of Expiry | Weighted average contractual life remaining (years) |
|------------------|------------|----------------------|------------------|---|
| 15 January 2016 | 29,333,334 | 0.11 | 14 January 2021 | 0.29 |
| 22 February 2017 | 6,000,000 | 0.20 | 21 February 2022 | 1.39 |
| | 35,333,334 | 0.13 | | |

10. Determination of fair values

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

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

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

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

The following tables provide fair value measurement information for financial assets and liabilities as at 30 September 2020 and 31 December 2019. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued expenses included in the consolidated statement of financial position approximate fair value due to the short-term nature of those instruments. Financial assets in the table below are measured at amortised cost.

| | 30 September 2020 | | 31 December 2019 | |
|---|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying value \$'000 | Fair value \$'000 | Carrying value \$'000 | Fair value \$'000 |
| Financial assets: | | | | |
| Cash and cash equivalents including restricted cash | 13,802 | 13,802 | 15,307 | 15,307 |
| Accounts receivable | 175 | 175 | 161 | 161 |
| Financial Liabilities: | | | | |
| <i>Other financial liabilities</i> | | | | |
| Accounts payable and accrued expenses | 562 | 562 | 682 | 682 |

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

Level 1 Fair Value Measurements

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

Level 2 Fair Value Measurements

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

Level 3 Fair Value Measurements

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

| | Carrying amount \$'000 | Fair value \$'000 |
|--------------------------|---------------------------|----------------------|
| 30 September 2020 | | |
| Financial liabilities: | | |
| Warrant | - | - |
| 31 December 2019 | | |
| Financial liabilities: | | |
| Warrant | 110 | 110 |

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

Falcon Oil & Gas Ltd.

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

12. Derivative liabilities

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

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

The terms of the warrant were as follows:

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

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

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

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

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

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

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

| | 30 September 2020 \$'000 | 31 December 2019 \$'000 |
|--|---|-------------------------------|
| Balance as at beginning of period | 10,331 | 10,102 |
| Revision to provisions | (2) | 3 |
| Accretion | 174 | 226 |
| Non – current; balance at end of period | 10,503 | 10,331 |

The Group's decommissioning provision results from its ownership interest in oil and natural gas assets. The total decommissioning provision is estimated based on the Group's net ownership interest in the wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years. The Group's has estimated the net present value of the decommissioning provision to be \$10.5 million as at 30 September 2020 (2019: \$10.3 million) based on an undiscounted total future liability of \$12 million (2019: \$11.9 million). These payments are expected to be made over approximately the next seven years. The discount factor, being the risk-free rate related to the liability, was 2.25% as at 30 September 2020 (2019: 2.25%).

14. Accounts payable and accrued expenses

| | 30 September 2020 \$'000 | 31 December 2019 \$'000 |
|-------------------|---|-------------------------------|
| Current | | |
| Accounts payable | 83 | 194 |
| Accrued expenses | 456 | 467 |
| Royalties payable | 23 | 21 |
| | 562 | 682 |

15. Note supporting statement of cash flows

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

Falcon Oil & Gas Ltd.

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

16. Related party transactions

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

Geoportal Plus Tanácsadó Bt.

On 1 March 2018, Geoportal Plus Tanácsadó Bt. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. It was paid a consultancy fee of \$23,608 for the period ended 30 September 2020 (2019: \$26,215).

17. Commitments

Work program commitments

Australia - Beetaloo Sub-Basin, Northern Territory, Australia

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

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

- Falcon covered for the full cost of completing the first five wells, estimated at A\$64 million.
- Origin to pay the full cost of the next two horizontally fracture stimulated wells, 90 day production tests and micro seismic with a capped expenditure of A\$53 million, any cost overrun funded by each party in proportion to their working interest.
- Origin to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A\$48 million, any cost overrun funded by each Party in proportion to their working interest.

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

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work recommenced in 2019, details of operations to date at Kyalla 117 are included in the Management's Discussion & Analysis for the period ended 30 September 2020 on pages 7 to 10.

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

On 25 November 2020 it was announced that while Kyalla 117 continued to flow back fracture stimulation fluid, with some gas shows; a measurable gas breakthrough that would allow the commencement of extended production testing to assess the extent of the resource that may be present had yet to occur.

Data collected and analysed to guide ongoing operations showed greater pressures in the horizontal section of Kyalla 117 than in the surrounding reservoir, due to the saline content and density of the flowback fluid and the hydrostatic column weight of this fluid in the vertical section. This pressure difference can prevent the flow of gas from the reservoir into the fractures and then to surface and it is not unusual in shale plays to observe the salinity and density of the flowback fluid to increase as salt easily migrates from the formation.

Operations are now being planned to re-enter Kyalla 117 with coiled tubing and apply nitrogen lift techniques to lower pressures in the well and assist with achieving and sustaining gas breakthrough that, if successful, will allow extended production testing to commence. This technique is not uncommon and was applied to the successful Amungee NW1-1H well in 2016.

Falcon Oil & Gas Ltd.

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

17. Commitments (continued)

The timing of coiled tubing activities and the nitrogen lift are being considered as the wet season approaches, with health, safety, environment and cost considerations in mind. If a decision is made to temporarily shut-in Kyalla 117, operations will resume in early 2021. As is the nature of exploration and appraisal, Falcon and Origin, are continually responding to the data gathered through operations to inform ongoing activities.

Other data collected to date remains positive. In particular, core analysis indicates mature hydrocarbons and good permeability (natural pathways for gas to flow) and mud logs indicate liquids rich gas. The fracture stimulation of the well was successful and the integrity of the well remains.

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

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. Management does not foresee this payment falling due within the next 12 months.

Hungary - Makó Trough, Hungary

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

18. Share capital

As at 30 September 2020 and 31 December 2019, the Company was authorised to issue an unlimited number of common shares, without par value.

The following is a reconciliation of issued and outstanding common shares:

| | Number of shares | Share capital \$'000 |
|---|-------------------------|---------------------------------|
| At 1 January 2019 | 931,304,183 | 383,737 |
| Private placement – May 2019 | 50,543,242 | 8,996 |
| Private placement – May 2019 - expenses | - | (563) |
| At 31 December 2019 | 981,847,425 | 392,170 |
| At 30 September 2020 | 981,847,425 | 392,170 |

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

19. Subsequent Events

Updates were provided in relation to Kyalla 117 on 2 October 2020, 4 November 2020 and 25 November 2020 respectively. Full details are included in Falcon's Management's Discussions and Analysis document for the three and nine months ended 30 September 2020 on pages 9-10.

20. Approval of Interim financial statements

These Interim Financial Statements were approved by the Audit Committee as delegated by the Board of Directors and authorised for issue on 26 November 2020.

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