Falcon Oil & Gas Ltd.

Consolidated Financial Statements
Year Ended 31 December 2016

(Presented in U.S. Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Falcon Oil & Gas Ltd.

We have audited the accompanying consolidated financial statements of Falcon Oil & Gas Ltd. for the year ended 31 December 2016 and the year ended 31 December 2015 which comprise the consolidated statement of financial position, the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards as issued by the IAASB.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Falcon Oil & Gas Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

BDO LLP

BDO LLP
London, UK
27 April 2017

Falcon Oil & Gas Ltd.
Consolidated Statement of Operations and Comprehensive loss

	Notes	**Year Ended 31 December 2016 $'000**	Year Ended 31 December 2015 $'000
Revenue			
Oil and natural gas revenue	5	**6**	7
		6	7
Expenses			
Exploration and evaluation expenses		**(336)**	(679)
Production and operating expenses		**(15)**	(20)
Depreciation	12	**(16)**	(39)
General and administrative expenses		**(2,037)**	(2,491)
Share based compensation	17	**(1,335)**	(256)
Foreign exchange loss		**(73)**	(143)
		(3,812)	(3,628)
Other income	11	**-**	3,594
		-	3,594
Results from operating activities		**(3,806)**	(27)
Fair value gain – outstanding warrants	21	**208**	79
Finance income	6	**53**	78
Finance expense	6	**(145)**	(220)
Net finance expense		**(92)**	(142)
Loss before tax		**(3,690)**	(90)
Taxation	8	**-**	(110)
Loss and comprehensive loss for the year		**(3,690)**	(200)
Loss and comprehensive loss attributable to:			
Equity holders of the company		**(3,687)**	(193)
Non-controlling interests		**(3)**	(7)
Loss and comprehensive loss for the year		**(3,690)**	(200)
Loss per share attributable to equity holders of the company:			
Basic and diluted	7	($0.004)	($0.000)

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

On behalf of the Board:

'Gregory Smith'
Gregory Smith

'Philip O'Quigley'
Philip O'Quigley

Falcon Oil & Gas Ltd.
Consolidated Statement of Financial Position

	Notes	At 31 December 2016 $'000	At 31 December 2015 $'000
Assets			
Non-current assets			
Exploration and evaluation assets	11	**39,618**	39,618
Property, plant and equipment	12	**7**	64
Trade and other receivables	13	**34**	22
Restricted cash	15	**2,151**	2,239
		41,810	41,943
Current assets			
Cash and cash on deposit	14	**10,127**	12,683
Trade and other receivables	13	**190**	268
		10,317	12,951
Total assets		**52,127**	54,894
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	16	**382,853**	382,853
Contributed surplus		**44,251**	42,916
Retained deficit		**(386,229)**	(382,542)
		40,875	43,227
Non-controlling interests		**703**	706
Total equity		**41,578**	43,933
Liabilities			
Non-current liabilities			
Decommissioning provision	22	**9,690**	9,565
		9,690	9,565
Current liabilities			
Accounts payable and accrued expenses	23	**632**	961
Derivative financial liabilities	21	**227**	435
		859	1,396
Total liabilities		**10,549**	10,961
Total equity and liabilities		**52,127**	54,894

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

Falcon Oil & Gas Ltd.
Consolidated Statement of Changes in Equity

	Notes	Share capital $'000	Contributed surplus $'000	Retained deficit $'000	Equity interests of the parent $'000	Non-Controlling interests ("NCI") $'000	Total equity $'000
At 1 January 2015		382,853	42,660	(382,349)	**43,164**	713	**43,877**
Share based compensation	17	-	256	-	**256**	-	**256**
Loss and total comprehensive loss for the year		-	-	(193)	**(193)**	(7)	**(200)**
At 31 December 2015		382,853	42,916	(382,542)	**43,227**	706	**43,933**
Share based compensation	17	-	1,335	-	**1,335**	-	**1,335**
Loss and total comprehensive loss for the year		-	-	(3,687)	**(3,687)**	(3)	**(3,690)**
At 31 December 2016		382,853	44,251	(386,229)	**40,875**	703	**41,578**

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

Falcon Oil & Gas Ltd.
Consolidated Statement of Cash flows

	Notes	Year Ended 31 December 2016 $'000	2015 $'000
Cash flows from operating activities			
Net loss for the year		**(3,690)**	(200)
Adjustments for:			
Share based compensation		**1,335**	256
Depreciation	12	**16**	39
Fair value gain - outstanding warrants	21	**(208)**	(79)
Net finance expense	6	**92**	142
Termination of farm-out transaction - NIS	11	**-**	(3,700)
Other		**101**	143
Change in non-cash working capital			
Trade and other receivables		**66**	257
Accounts payable and accrued expenses		**(202)**	124
Restructuring spend		**-**	(444)
Interest received	6	**53**	78
Net cash used in operating activities		**(2,437)**	(3,384)
Cash flows from investing activities			
Decrease / (increase) in restricted cash		**22**	(1,991)
Exploration and evaluation assets		**(110)**	(110)
(Increase) / decrease in cash deposits – other receivables		**(2,270)**	4,000
Termination of farm-out transaction - NIS	11	**-**	3,700
Property, plant and equipment		**(4)**	-
Net cash (used in) / generated by investing activities		**(2,362)**	5,599
Change in cash and cash equivalents		**(4,799)**	2,215
Effect of exchange rates on cash & cash equivalents		**(27)**	(285)
Cash and cash equivalents at beginning of year		**10,683**	8,753
Cash and cash equivalents at end of year	14	**5,857**	10,683

The notes are an integral part of these 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

The significant accounting policies adopted by the Group are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation and going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and Interpretations of the IFRS Interpretations Committee.

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 the foreseeable future. For this reason, 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.

Historical cost convention

The consolidated financial statements have been prepared on the historical cost basis with the exception of certain derivative financial instruments, share options which are measured at fair value and trade and other receivables that are initially recognised at fair value, and subsequently measured at amortised cost less accumulated impairment losses.

Foreign currency translation

(i) Functional and presentation currency
The consolidated financial statements are presented in United States dollars ("**$**"). All amounts, except as otherwise indicated, are presented in thousands of dollars. The functional currency for group subsidiaries is United states dollars with the exception of TXM, whose functional currency is Hungarian Forints.

"**CDN$**" where referenced in the financial statements represents Canadian Dollars, "**£**" represent British Pounds Sterling, "**HUF**" represents Hungarian Forints and **"A$**" represents Australian Dollars.

(ii) Transactions and balances
Transactions in foreign currencies are translated to United States dollars, at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in the statement of operations and comprehensive loss.

2. Accounting policies (continued)

Basis of consolidation

These consolidated financial statements include the accounts of Falcon and its subsidiaries. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from Falcon's equity. Non-controlling interests consists of the non – controlling interest at the date of the change in ownership plus the non-controlling interest's share of changes in equity since that date.

All of the Falcon's subsidiaries are wholly owned except for Falcon Australia of which approximately 98.1% of the outstanding Ordinary Shares are owned by Falcon. The consolidated financial statements include non-controlling interests representing the 1.9% portion of Falcon Australia's assets and liabilities not controlled by Falcon. The reporting dates of the Company and its subsidiaries have the same reporting dates.

Intercompany balances, transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements, except when losses realised on intercompany transactions are evidence of impairment.

Joint operations

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

Financial assets

The Group classifies its financial assets at fair value through the statement of operations and comprehensive loss or as loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through the statement of operations and comprehensive loss
Financial assets at fair value through the statement of operations and comprehensive loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purposes of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are initially recognised at fair value and subsequently recorded at amortised cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "cash and cash equivalents" and "restricted cash" in the balance sheet.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Accounting policies (continued)

Derivative financial instruments

Derivatives (including embedded derivatives) are initially recognised at fair value of the date a derivative contract is entered into and subsequently re-measured at their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designated any derivatives as hedges as at 31 December 2016 or 31 December 2015.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. Changes in the fair value of separable embedded derivatives are recognised immediately in the statement of operations and comprehensive loss.

Warrants

Warrants which do not meet the criteria to be classified as an equity instrument are classified at fair value through the statement of operations and comprehensive loss and are recorded on the statement of financial position at fair value. Transaction costs are recognised in the statement of operations and comprehensive loss as incurred.

Overriding Royalty Interest

A financial liability will arise in relation to the Overriding Royalty Interests on the Group’s exploration licence when it becomes likely that an obligation will exist, which would occur when production commences.

Call options

A financial liability will be recognised in relation to call options to reacquire overriding royalty interests on the Group’s exploration assets when these become contractual under the agreement.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

Property, plant and equipment and intangible exploration assets

(i) Recognition and measurement

*Exploration and evaluation (“**E&E**”) expenditures*

Pre-license costs are recognised in the statement of operations and comprehensive loss as part of exploration and evaluation expenses as incurred.

E&E costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalised under full cost accounting, as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash-generating units.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable when proven reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as oil and natural gas interests.

2. Accounting policies (continued)

Proceeds from disposal or farm-out transactions of intangible exploration assets are used to reduce the carrying amount of the assets. When proceeds exceed the carrying amount, the difference is recognised as a gain. When the Group disposes of its full interests, gains or losses are recognised in accordance with the policy for recognising gains or losses on the sale of plant, property and equipment.

Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generated units (**"CGUs"**) for impairment testing. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" or "other expenses" in the statement of operations and comprehensive loss.

Other fixed assets

Costs incurred on office fixtures and fittings are stated at historical cost less accumulated depreciation and any recognised impairment.

(ii) Subsequent costs
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognised as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognised in the statement of operations and comprehensive loss as incurred. Such capitalised oil and natural gas interests generally represent costs incurred in developing proved and / or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of operations and comprehensive loss as incurred.

Leased assets

Operating leases are not recognised on the Company's statement of financial position.

Payments made under operating leases are recognised in the statement of operations and comprehensive loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Impairment

(i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised within profit or loss in the statement of operations and comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the statement of operations and comprehensive loss.

2. Accounting policies (continued)

(ii) Non-financial assets
The carrying amounts of the Company's non-financial assets, other than E&E assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the cash-generating unit (**"CGU"**). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

E&E assets are allocated to related CGU when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of operations and comprehensive loss. Impairment losses recognised in respect of CGU are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortisation, if no impairment loss had been recognised.

Share based compensation

Share based compensation is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. The amount recognised as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognised in contributed surplus, is recorded as an increase to share capital.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognised for future operating losses.

(i) Decommissioning provisions
The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalised in the relevant asset category.

Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases / decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

2. Accounting policies (continued)

Segment reporting

The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (**"CODM"**). The CODM is considered to be the Board of Directors.

Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions, changes in fair value of certain derivatives and impairment losses recognised on financial assets.

Interest income is recognised as it accrues in the statement of operations and comprehensive loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income and expenses, are those related to financing items.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of operations and comprehensive loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Loss / earnings per share

Basic (loss) / earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted (loss) / earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of dilutive instruments such as options granted to employees.

3. Critical accounting estimates and judgments

Preparation of financial statements pursuant to IFRS requires a significant number of judgemental assumptions and estimates to be made. This impacts the income and expenses recognised in the statement of operations and comprehensive loss together with the valuation of the assets and liabilities in the statement of financial position. Such estimates and judgements are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation. It should be noted that the impact of valuation in some assumptions and estimates can have a material impact on the reported results.

The following are key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies:

Critical judgments

(i) Exploration and evaluation assets
The carrying value of exploration and evaluation assets was $39.6 million at 31 December 2016 (2015: $39.6 million). The Group has determined that there are no indicators of impairment present in accordance with IFRS 6 "Exploration for and evaluation of mineral interests" regarding its Australian exploration and evaluation assets.

Management's conclusion on the facts and circumstances regarding its Australian exploration and evaluation assets required judgment based on experience and the expected progress of current exploration and evaluation activities.

For details of the critical facts supporting the judgement please refer to Note 11 *Beetaloo Basin, Northern Territory, Australia* which outlines the results of drilling activities to date.

The Group had previously indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme.

Falcon further notes that pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin Energy Resources Limited has requested a suspension of all drilling operations with the Department of Primary Industry and Resources of the Northern Territory, Australia ("**DPIR**"). The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

The Group does not believe that the moratorium on hydraulic fracturing impacts the carrying value of the asset. The outcome of the inquiry is unknown, with recommendations expected to be made later this year. The joint venture remains fully committed to the project. The work programme and the announcements during 2016 and 2017 as outlined in Note 11 provide sufficient evidence to support the carrying value of the asset.

Critical estimates

(ii) Going concern
The consolidated financial statements have been prepared on the going concern basis. In considering the financial position of the Group, the Group has considered the forecasted operating and capital expenditures for the foreseeable future and cash flows relating to its financing. Forecasting those cash flows requires significant judgment when estimating expected operating expenditure, capital expenditure, decommissioning of suspended wells, expected monies to be received from potential farm-in partners and proceeds from share issuances.

(iii) Decommissioning Provision
The decommissioning provision represents the Group's best estimate of the costs involved in the various exploration and production licence areas to return them to their original condition in accordance with the licence terms. These estimates include certain management assumptions with regard to future costs, inflation rates, timing of cash flows and discount rates.

4. Management of capital

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to explore and develop its petroleum and natural gas properties. The Group manages the components of shareholders' equity and makes adjustments to these components in response to the Group's business objectives and the economic climate. To maintain or adjust its capital structure, the Group may issue new common shares or debt instruments, or borrow money or acquire or convey interests in other assets. The Group does not anticipate the payment of dividends in the foreseeable future.

The Group's investment policy is to hold excess cash in highly-liquid, short-term instruments, such as rolling deposits with major European, Canadian or United States financial institutions, with initial maturity terms of zero to twelve months from the original date of acquisition, selected with regard to the Group's anticipated liquidity requirements.

5. 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**
Year ended 31 December 2016					
Revenue	**-**	**-**	**-**	**6**	**6**
Net loss (i)	**(488)**	**(436)**	**(895)**	**(1,868)**	**(3,687)**
At 31 December 2016	**-**	**-**	**-**	**-**	**-**
Capital assets (ii)	**39,618**	**-**	**-**	**7**	**39,625**

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

	Australia $'000	South Africa $'000	Hungary $'000	Other $'000	Total $'000
Year ended 31 December 2015					
Revenue	-	-	-	7	7
Net loss (i)	(590)	(662)	2,293	(1,234)	(193)
At 31 December 2015					
Capital assets (ii)	39,618	-	-	64	39,682

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

6. Finance income and expense

	Notes	For the year ended 31 December **2016** **$'000**	 2015 $'000
Finance income			
Interest income on bank deposits		**53**	78
		53	78
Finance expense			
Accretion of decommissioning provisions	22	**(124)**	(123)
Net foreign exchange loss		**(21)**	(97)
		(145)	(220)
Net finance expense		**(92)**	(142)

7. Net loss per share

Basic and diluted loss per share is calculated as follows:

	For the year ended 31 December **2016** **$'000**	 2015 $'000
Loss attributable to equity holders of the company	**(3,687)**	(193)
Weighted average number of common shares in issue - (thousands)	**921,538**	921,538
Loss / diluted loss per share	($0.004)	($0.000)

8. Income taxes

A reconciliation of the expected tax benefit computed by applying the combined federal and provincial Canadian tax rates of 28% (2015: 28%) to the loss before tax to the actual tax result is as follows:

	For the year ended 31 December **2016** **$'000**	 2015 $'000
Loss before tax	**(3,690)**	(90)
Computed income tax benefit	**(1,033)**	(25)
Decrease / (increase) in income taxes resulting from:		
Effect of foreign income tax rates	**275**	(300)
Non-deductible stock based compensation	**374**	72
Derivatives	**(58)**	(22)
Other	**(476)**	(655)
Change in deferred tax benefits not recognised	**918**	1,040
Tax result	**-**	(110)

8. Income taxes (continued)

The Group's deductible temporary differences included in the Group's unrecognised deferred tax asset are as follows:

		At 31 December
	2016	2015
	$'000	$'000
Trading losses	**69,432**	66,271
E&E assets and property, plant and equipment	**160,510**	162,254
Other	**1,165**	1,161
	231,107	229,686

The Group's accumulated trading losses carryforwards as at 31 December 2016 to reduce future years' taxable income are as follows:

	2016	**2016**	2015	2015
	$'000	**Expiration**	$'000	Expiration
Canada	**27,245**	2026 to 2036	25,105	2016 to 2034
United States	**16,573**	2027 to 2034	16,597	2027 to 2034
Hungary	**21,399**	2017 to 2021	21,540	2016 to 2019
Other	**4,215**	No expiration	3,029	No expiration
	69,432		66,271	

The other deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of the tax losses, exploration and evaluation assets and other as it is not probable that future tax profit will be available against which the Group can utilise these benefits in the foreseeable future.

9. Directors' remuneration & transactions with key management personnel

Directors' remuneration is analysed as follows:

Executive director[(i)]

	Year	**Salary**	**Pension contribution**	**Other**	**Bonus**	**[(ii)] Share based payment**
		$'000	**$'000**	**$'000**	**$'000**	**$'000**
Philip O'Quigley	**2016**	**390**	**60**	**5**	**4**	**458**
	2015	390	60	5	-	97

(i) Director's remuneration is fixed by the Compensation Committee of the Board.

(ii) Share based payments represents the non-cash expense attributable to the relevant options held by each Director. For further details on the fair value calculation of these amounts, refer to note 17.

9. Directors' remuneration & transactions with key management personnel (continued)

Non - executive directors

	Director fees[(i)]		Share - based payments[(ii)]	
	2016	2015	**2016**	2015
	$'000	$'000	**$'000**	$'000
JoAchim Conrad	**48**	36	**154**	**5**
John Craven[(iii)]	**17**	48	**46**	**73**
Dr. György Szabó	**36**	36	**96**	**-**
Daryl Gilbert	**42**	42	**96**	**3**
Gregory Smith	**42**	42	**96**	**3**
Maxim Mayorets	**42**	42	**96**	-
	227	246	**584**	84

(i) Directors' remuneration is fixed by the Compensation Committee of the Board.

(ii) Share based payments represents the non-cash expense attributable to the relevant options held by each Director. For further details on the fair value calculation of these amounts, refer to note 17.

(iii) John Craven stepped down from the Board with effect from 21 June 2016.

Transactions with key management comprising Directors and other senior management

Key management personnel comprise the Board of Directors and senior management. The remuneration of key management personnel was as follows:

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Directors' fees	**227**	246
Salaries and other emoluments	**773**	707
Share based compensation	**1,279**	259
Defined contribution pension plans	**79**	78
	2,358	1,290

Remuneration of Directors and senior management includes all amounts earned and awarded which are determinable by the Company's Board of Directors and senior management.

Senior Management includes the Group's Chief Executive Officer, Chief Financial Officer and Head of Technical.

Directors' fees include Board and Committee fees. Salaries and other emoluments include salary, benefits and bonuses earned or awarded during the year. Share-based compensation includes expenses related to the Company's long-term incentive compensation.

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10. Compensation expense and auditors' remuneration

(i) Compensation expense

The Company's consolidated statement of operations and comprehensive loss are prepared primarily by nature of expense, with the exception of compensation costs which are included in both exploration and evaluation expenses and general and administrative expenses and share based compensation which is reflected as a separate financial statement component. The following is a summary of total compensation:

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Exploration and evaluation expenses	**143**	302
General and administrative expenses	**1,293**	1,324
Share based compensation	**1,335**	256
	2,771	1,882

(ii) Auditors' remuneration

Remuneration of the auditors for the audit of the Group financial statements and other services is as follows:

	For the year ended 31 December	
	2016	2015
	$'000	$'000
Audit fees	**76**	95
Quarterly review fees	**-**	40
Tax Fees	**3**	14
	79	149

The above amounts exclude Canadian / Australian GST and European VAT as applicable. The amounts exclude the reimbursement of expenses.

11. Exploration and Evaluation assets

	Australia	**Total**
	$'000	**$'000**
At 1 January 2016	39,618	39,618
At 31 December 2016	**39,618**	**39,689**

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

E&E assets consist of the Group's Australian exploration project which is pending the determination of proven or probable reserves.

11. Exploration and Evaluation assets (continued)

Beetaloo Basin, Northern Territory, Australia

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

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

The transaction details were:

- Falcon Australia received A$20 million cash from the farminees.
- Origin was appointed as Operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal program between 2014 to 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.
- Farminees to pay for the full cost of completing the first five wells estimated at A$64 million, and to 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 subsequent next two horizontally fracture stimulated wells.

On 28 April 2016 Falcon provided an update on the 2015 drilling programme technical results for its operations in the Beetaloo Basin, Australia. The results from the in-depth shale evaluation program and petrophysical analysis of the three wells drilled in 2015 confirmed the following:

- The Middle Velkerri and Kyalla shales offer stacked play fairways with continuity over a large proportion of the Beetaloo Basin and in various maturity windows (dry gas to liquid).
- Three pervasive, organic rich shale intervals were identified and characterised within the Middle Velkerri formation with excellent reservoir and completion quality. The identified "B" and "C" shales had thickness in excess of 40 metres each.
- Amungee NW-1H, the first horizontal well in the programme landed in the Middle Velkerri "B" shale encountering excellent gas shows and represents a highly prospective candidate for multi-stage hydraulic fracture stimulation.
- Core analysis confirmed that the Middle Velkerri shale is organic rich, with average TOC of 3%-4% and is gas saturated.
- DFIT data revealed that the Middle Velkerri shale is 20%-25% overpressured, which is encouraging from both a volumetrics and reservoir productivity perspective.
- Favourable geomechanics indicates good frackabability within the Middle Velkerri shale.
- Estimated gas in-place density ranges within the Middle Velkerri shales are comparable to successful North American shale plays.

11. Exploration and Evaluation assets (continued)

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 metres.
- 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 metre 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 exceeded 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 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 the 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 metres, 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 was underway.

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.

11. Exploration and Evaluation assets (continued)

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 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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11. Exploration and Evaluation 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.

Suspension of Drilling Operations

Since the introduction of a moratorium on hydraulic fracturing in September 2016, the Northern Territory Government established an independent scientific inquiry. Pending the outcome of this independent inquiry, Origin has requested a suspension of all drilling operations with the DPIR.

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 suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

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11. Exploration and Evaluation 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.

11. Exploration and Evaluation assets (continued)

<u>Karoo Basin, South Africa</u>

Falcon holds a Technical Cooperation Permit ("**TCP**") covering an area of approximately 7.5 million acres (approximately 30,327 km^2) onshore Karoo Basin, South Africa. The TCP grants Falcon an exclusive right to apply for an exploration right over the underlying acreage.

In December 2012, Falcon entered into a cooperation agreement (the "**Chevron Agreement**") with Chevron Business Development South Africa Ltd. ("**Chevron**") to jointly seek unconventional exploration opportunities in the Karoo Basin. The Chevron Agreement provides for Falcon to work with Chevron for a period of five years to jointly seek to obtain exploration rights in the Karoo Basin subject to the parties mutually agreeing participation terms applicable to each right.

On 3 November 2014, Falcon announced it was notified by the Petroleum Agency of South Africa that a decision had been taken to proceed with processing of the Company's application for a shale gas exploration licence in South Africa's Karoo Basin.

On 9 March 2016, Falcon announced the PASA had recently confirmed that it expects to finalise a recommendation to the Minister of Mineral Resources on Falcon's application for a shale gas exploration licence in South Africa's Karoo Basin, by May 2016. The Company expects that the Minister of Mineral Resources will issue Falcon with a licence to explore for shale gas in 2017.

On 4 November 2016 an updated Mineral and Petroleum Resources Development Amendment Bill ("**MPRDA Bill**") was presented to a select committee of Parliament by the Department of Mineral Resources. Provincial meetings and public hearings relating to the updated MPRDA Bill commenced on 16 December 2016 and are ongoing.

There have been no further updates from the PASA on Falcon's application. The Board now expects that the exploration right over the acreage will be awarded in 2017.

All expenditures and recoveries of costs associated with the TCP and with the application for the exploration permit are charged / credited to operations as E&E expenses.

<u>Makó Trough, Hungary</u>

Falcon began operations in Hungary in 2005. Falcon's subsidiary, TXM, holds the 35-year Makó Production Licence covering an area of approximately 245,775 acres (approximately 1,000 km^2) located in the Makó Trough, part of the greater Pannonian Basin of central Europe. The Makó Licence is located approximately ten kilometres from the MOL Group owned and operated Algyő field. The Makó Licence area is transected by existing gas pipelines, including a 12 kilometre gas pipeline built by Falcon in 2007, which together offer potential access to local and international markets.

The Makó Trough contains two distinct plays:

- a play targeting gas prospects in the shallower Algyő Play at depths between 2,300 metres and 3,500 metres; and
- a deeper unconventional play targeting significant contingent resources in the Deep Makó Trough.

On 26 January 2015, the Group announced the expiry of the extension granted to Naftna Industrija Srbije jsc ("**NIS**"), regarding their three-well drilling programme in Falcon's Makó Trough Licence in Hungary. The July 2014 deadline for completion of drilling and testing of the three-well programme was extended by Falcon to 31 December 2014 to enable NIS to fulfil its three well obligation. NIS had only drilled and tested two wells.

On 3 December 2015, Falcon announced that it had signed a termination agreement with NIS terminating the Oilfield Services Contract entered into between the parties in January 2013. NIS agreed to pay $3.7 million to Falcon in fulfilment of its contractual obligations. This was received in December 2015. Falcon retains a 100% interest in the Makó Trough Licence in Hungary including the deep play. The $3.7million received less costs has been recorded as "other income" in the consolidated statement of operations and comprehensive loss at 31 December 2015.

On 9 March 2016 Falcon indicated that it continues to review its operation and future plans in Hungary, evaluating all options available to the Group to deliver shareholder value. The Group maintains its 100% interest in the Máko Trough.

12. Property, plant and equipment

	Canadian natural gas interests $'000	**Pipeline and facilities $'000**	**Furniture and equipment $'000**	**Total $'000**
Cost:				
At 1 January 2016	**466**	**4,108**	**190**	**4,764**
Additions	**-**	**-**	**4**	**4**
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**

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

13. Trade and other receivables

	2016 $'000	At 31 December 2015 $'000
Non-current		
Deposits	**34**	22
	34	22

13. Trade and other receivables (continued)

	At 31 December	
	2016	2015
	$'000	$'000
Current		
Deposits	**-**	47
Prepayments	**92**	133
GST/ VAT receivable	**27**	39
Other receivables	**71**	49
	190	268

14. 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.

	At 31 December	
	2016	2015
	$'000	$'000
Cash and cash equivalents	**5,857**	10,683
Cash on deposit	**4,270**	2,000
	10,127	12,683

15. Restricted cash

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

	At 31 December	
	2016	2015
	$'000	$'000
Restricted cash	**2,151**	2,239
	2,151	2,239

16. Share capital

As at 31 December 2016 and 2015, the Company was authorised to issue an unlimited number of common shares, without par value. The following are the rights, preferences and restrictions attaching to the common shares:

- The Shareholders are entitled to one vote per Common Share at a shareholder meeting;
- The Company's articles do not impose any pre-emptive rights upon the transfer of the Common Shares;
- Subject to the Business Corporation Act (British Columbia, Canada) (**"BCA"**) and any regulatory or stock exchange requirements applicable to the Company, the articles of the Company do not contain any provisions relating to mandatory disclosure of an ownership interest in the Common Shares above a certain threshold;

16. Share capital (continued)

- Shareholders are entitled to receive, on a pro rata basis, such dividends, if any, as and when declared by Falcon's board of directors at its discretion from funds legally available therefor, and upon the liquidation, dissolution or winding up of Falcon are entitled to receive on a pro rata basis the net assets of Falcon after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. All rights are the same for residents or non-residents of Canada;
- Annual general meetings must be held at least once in each calendar year and not more than 15 months after the last annual reference date. The directors may, whenever they see fit, call a meeting of Shareholders. The Company must send notice of the shareholder meeting at least 21 days before the meeting. A quorum for a meeting of Shareholders is two persons who are, or who represent by proxy, Shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting. If there is only one Shareholder entitled to vote at a meeting of Shareholders, the quorum is one person who is, or who represents by proxy, that Shareholder, present in person or by proxy, may constitute the meeting;
- Pursuant to the BCA, the Company may by special resolution of the Shareholders vary or delete any special rights or restrictions attached to the Common Shares.

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

	Number of shares	Share capital $'000
At 31 December 2014	921,537,517	382,853
At 31 December 2015	921,537,517	382,853
At 31 December 2016	**921,537,517**	**382,853**

17. Share based compensation

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

Any consideration paid on the exercise of these options together with the related contributed surplus associated with the exercised options is recorded as share capital. The Group incurred share based expense of $1.3 million during the year ended 31 December 2016 (2015: $0.3 million).

38.7 million options were granted in the year to 31 December 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 year to 31 December 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.

The Options granted to Mr. Craven and Mr. O'Quigley vested at the time of grant. The Options have an expiry date of 25 January 2020. The Options granted to Mr. Gallagher have a vesting schedule allowing for 1/3 of the Options to vest on the first anniversary of the grant with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 25 January 2018. The Options have an expiry date of 25 January 2020.

17. Share based compensation (continued)

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

	Year ended 31 December 2016		Year ended 31 December 2015	
	Number of options	**Weighted average exercise price CDN$**	Number of options	Weighted average exercise price CDN$
Outstanding as at beginning of period	**31,440,000**	0.15	30,085,333	0.15
Granted	**38,700,000**	0.11	6,000,000	0.15
Expired	**(15,340,000)**	0.15	(3,312,000)	0.17
Forfeited	**(9,700,000)**	0.14	(1,333,333)	0.21
Outstanding as at end of period	**45,100,000**	0.12	31,440,000	0.15
Exercisable as at end of period	**23,100,000**	0.12	27,073,334	0.15

The exercise prices of the outstanding options are as follows:

Date of grant	**Options**	**Exercise price CDN$**	**Date of Expiry**	**Weighted average contractual life remaining (years)**
1 May 2012	6,000,000	0.10	1 May 2017	0.33
30 April 2013	2,100,000	0.24	29 April 2018	1.33
26 January 2015	5,000,000	0.15	25 January 2020	3.07
15 January 2016	32,000,000	0.11	14 January 2021	4.04
	45,100,000			

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

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

18. Overriding royalties

On 1 November 2013, Falcon announced that Falcon Australia, had entered into an agreement (the "**CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% Overriding Royalty Interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin. The key transaction details were:

- Falcon Australia made an initial payment to CRIAG of $999,000 on signing the CRIAG Agreement;
- Falcon Australia to make a second payment to CRIAG of $999,000 to acquire the first 3% (three fourths) of the ORRI upon completion of a farm-out deal in Australia;
- CRIAG granted Falcon Australia a five year call option to acquire the remaining 1% (one fourth) for $5 million; and
- All ORRI's acquired under the CRIAG Agreement to be immediately cancelled by Falcon Australia.

18. Overriding royalties (continued)

On 17 December 2013, Falcon announced that Falcon Australia, had entered into an agreement (the **"TOG Agreement"**) with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire up to 7% (seven eighths) of their 8% private ORRI over Falcon Australia's Exploration Permits in the Beetaloo Basin for the following consideration:

- Falcon Australia to make a payment to TOG Group of $5 million to acquire 5% (five eighths) of their ORRI only on completion of a Beetaloo farm-out transaction;
- TOG Group to grant Falcon Australia a five year call option to acquire a further 2% (two eights) of their ORRI for a payment of $15 million;
- All ORRIs acquired under the Agreement to be immediately cancelled by Falcon Australia; and
- TOG Group to retain a 1% ORRI.

On completion of Falcon's Beetaloo farm-out as announced on 21 August 2014, Falcon Australia made the second payment to CRIAG in the amount of $999,000 and to the TOG Group in the amount of $5 million. The overriding royalty is now at 4%. As detailed in the respective CRIAG agreement and TOG agreement, Falcon Australia and the Farminees have the option to reduce this royalty further to 1% by the exercise of two 5 year call options. The call options will be funded by Falcon Australia and each of the Farminees in proportion to their interest in the permits.

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

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

20. Financial Instruments and risk management

(i) Fair Value

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

	31 December 2016		31 December 2015	
	Carrying value $'000	**Fair value $'000**	Carrying value $'000	Fair value $'000
Financial assets:				
Cash and cash on deposit including restricted cash	**12,278**	**12,278**	14,922	14,922
Accounts receivable	**197**	**197**	251	251
Financial Liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**632**	**632**	961	961

20. Financial Instruments and risk management (continued)

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**
31 December 2016		
Financial liabilities:		
Hess warrant	**227**	**227**
31 December 2015		
Financial liabilities:		
Hess warrant	435	435

All instruments in the table are Level 2 instruments.

(ii) Financial risk disclosures

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Credit Risk
The Company's credit risk is limited to cash, receivables and restricted cash. The Group maintains cash accounts at five financial institutions. The Group periodically evaluates the credit worthiness of financial institutions. The Group believes that credit risk associated with cash is minimal. Receivables are not significant to the Group. The Group's credit risk has not changed significantly from the prior year.

Liquidity Risk
The Group has in place a planning and budgeting process to help determine the funds required to support the Group's normal operating requirements on an ongoing basis and its planned capital expenditures. The Group's overall liquidity risk and going concern is discussed in note 2.

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20. Financial Instruments and risk management (continued)

The following are the contractual maturities of financial liabilities, including estimated interest payments:

31 December 2016	**Carrying amount $'000**	**Contractual cash flows $'000**	**One year or less $'000**	**One to three years $'000**
Non-derivative financial liabilities				
Accounts payable and accrued expenses	**632**	**632**	**632**	**-**
	632	**632**	**632**	**-**
Derivative financial liabilities:				
Hess warrant	**227**	**-**	**-**	**-**
	227	**-**	**-**	**-**

31 December 2015	**Carrying amount $'000**	**Contractual cash flows $'000**	**One year or less $'000**	**One to three years $'000**
Non-derivative financial liabilities				
Accounts payable and accrued expenses	961	961	961	-
	961	961	961	-
Derivative financial liabilities:				
Hess warrant	435	-	-	-
	435	-	-	-

Currency Risk
Financial instruments that impact the Group's net loss due to currency fluctuations include Canadian dollar, Hungarian forint, Euro, British pound sterling and Australian dollar denominated cash and cash on deposit, accounts receivable, reclamation deposits and accounts payable.

The Company's exposure to all currencies, including the Hungarian forint, Euro, British pound sterling and Australian dollar, does not result in a significant change to total shareholders' equity and income when the respective currencies strengthen or weaken by one cent against the U.S. dollar.

Interest Rate Risk
The Company has no significant exposure to interest rate risk as the Company has no debt.

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21. 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 31 December 2016 and 2015, and the changes therein for the years then ended, are as follows:

	Hess Warrants $'000	Total $'000
At 1 January 2015	514	514
Derivative gains – unrealised – outstanding warrant	(79)	(79)
At 31 December 2015 - current	435	435
Derivative gains – unrealised – outstanding warrant	**(208)**	**(208)**
At 31 December 2016 - current	**227**	**227**

The terms of the warrant are as follows:

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

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

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

	Hess Warrant 31 December 2016	Hess Warrant 31 December 2015
Number	**10,000,000**	10,000,000
Expiry	**13 January 2020**	13 January 2020
Exercise price	**CDN$0.19**	CDN$0.19
Volatility	**79.907%**	78.32%
Expected warrant life	**3.04 years**	4.04 years
Dividends	**Nil**	Nil
Risk-free rate	**0.85%**	0.61%

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22. Decommissioning Provision

A reconciliation of the decommissioning provision for the years ended 31 December 2016 and 2015 is provided below:

	2016 $'000	2015 $'000
Balance as at beginning of year	**9,565**	9,493
Revision to provisions – primarily movement on foreign exchange	**1**	(51)
Accretion	**124**	123
Balance as at end of year – non-current	**9,690**	9,565

The Group's decommissioning provision results from its ownership interest in oil and natural gas assets. The total decommissioning provision is estimated based on the Group's net ownership interest in the wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years. The Group's has estimated the net present value of the decommissioning provision to be $9.7 million as at 31 December 2016 (2015: $9.6 million) based on an undiscounted total future liability of $11.9 million (2015: $11.1 million). These payments are expected to be made over approximately the next 11 years. The discount factor, being the risk free rate related to the liability, was 2% as at 31 December 2016 (2015: 1.3%).

23. Accounts payable and accrued expenses

		At 31 December
	2016 $'000	2015 $'000
Current		
Accounts payable	**144**	314
Accrued expenses	**476**	604
Royalties payable	**12**	9
Restructuring provision	**-**	34
	632	961

24. Related party transactions

Key management personnel
Disclosures with regard to key management personnel are included in note 9.

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

Senzus Kft
On 1 January 2013, Senzus Kft. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The agreement was terminated on 28 April 2015. A separate agreement was entered into on 28 April 2015, which expired on 31 March 2016. The contract was renewed with an effective date of 1 April 2016. Senzus Kft. was paid a consultancy fee of $103,440 during the year ended 31 December 2016 (2015: $75,000).

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$630 (2015: CDN$945) to Oakridge Financial Management Inc. during the year ended 31 December 2016.

25. Commitments and contingencies

(i) Lease commitments

The Group has the following lease agreements for office space at 31 December 2016:

- Budapest, Hungary expiring July 2018; and
- Dublin, Ireland, with a break clause exercisable in April 2019.

The Group is obligated to pay the following minimum future rental commitments under non-cancelable operating leases at 31 December 2016 and 31 December 2015 during the following periods:

	As at 31 December 2016 $'000	As at 31 December 2015 $'000
2016	**-**	115
2017	**44**	97
2018	**40**	5
Thereafter	**9**	-
Total	**93**	217

(ii) Work program 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.

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

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

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 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 on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

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.

26. Standards, Interpretations and Amendments to Published Standards that are not yet effective

Several new standards and amendments to existing standards and interpretations, which have been issued by the IASB, and which are expected to apply to the Group are not yet effective and have not been applied in preparing these financial statements. The Group does not expect adoption of these new standards and interpretations, to have a material impact on the financial statements.

Pronouncement	Issued date	Effective date
IFRS 9 Financial Instruments	July 2014	1 January 2018
IFRS 15 Revenue from Contracts with Customers	May 2014	1 January 2018
IFRS 16 Leases	January 2016	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) *(In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)	September 2014	—*
Annual Improvements 2014-2016	December 2016	1 January 2018
IFRS 2 Classification and measurement of share-based payment transactions	June 2016	1 January 2018
Foreign currency transaction and advance consideration (IFRIC Interpretation 22)	December 2016	1 January 2018

27. Subsequent Events

On 21 February 2017 Falcon announced that on 20 February 2017 Philip O'Quigley, a director of the Company, gave notice to the Company of his intention to exercise incentive stock options to purchase an aggregate of 6,000,000 common shares in the Company at a price of CDN$0.10 per share.

The stock options were granted to Mr O'Quigley on 1 May 2012 under Falcon's approved stock option plan and were due to expire on 30 April 2017.

Mr O'Quigley subsequently sold 4,500,000 shares through a placing with an unrelated private investor at GBP 0.145 (equivalent to CDN$0.237) per share. The closing price on the AIM market in London on 20 February 2017 was GBP 0.15.

Following the exercise of the 6,000,000 Options and subsequent sale of the 4,500,000 common shares, Mr O'Quigley had the following shareholdings in the Company:

Name	Number of Stock Options	Number of Shares
Philip O'Quigley	14,000,000	3,013,696

On 23 February 2017 Falcon announced that on 22 February 2017 it granted incentive stock options to purchase an aggregate of 6,000,000 common shares of Falcon to Anne Flynn, Chief Financial Officer of Falcon under the stock option plan approved at Falcon's annual shareholders meeting held on 21 June 2016. The Option grant is subject to regulatory approval by the TSX Venture Exchange. A maximum of 10% of the issued and outstanding shares of Falcon are reserved for issuance pursuant to Falcon's stock option plan. The Options were granted at an exercise price of CDN$0.20 being the closing share price on the TSX Venture Exchange on 22 February 2017 to the following:

Name	Number of Options granted	Total number of Options held after grant
Anne Flynn	6,000,000	7,000,000

The Options granted have a vesting schedule allowing for 1/3 of the Options to vest immediately with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 22 February 2019. The Options have an expiry date of 21 February 2022.

28. Approval of financial statements

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 27 April 2017.

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