



Falcon Oil & Gas Ltd.

Consolidated Financial Statements
Year Ended 31 December 2018

(Presented in U.S. Dollars)

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Year Ended 31 December 2018

Table of Contents

	Page Number
Independent Auditors' Report	3
Consolidated Statement of Operations and Comprehensive Loss	6
Consolidated Statement of Financial Position	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Falcon Oil & Gas Ltd.

Opinion

We have audited the consolidated financial statements of Falcon Oil & Gas Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 to the financial statements, which indicates that the Group may require additional funding to be raised which is yet to be determined. As stated in Note 2, these events or conditions, along with other matters as set out in Note 2 indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

INDEPENDENT AUDITOR'S REPORT (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Scott Knight.

A handwritten signature in grey ink that reads "BDO LLP".

BDO LLP
Chartered Accountants
London, UK
24 April 2019

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

		Year Ended 31 December 2018 \$'000	Year Ended 31 December 2017 \$'000
	Notes		
Revenue			
Oil and natural gas revenue	5	15	7
		15	7
Expenses			
Exploration and evaluation expenses		(159)	(245)
Production and operating expenses		(10)	(18)
Depreciation	12	(1)	(4)
General and administrative expenses		(1,909)	(1,975)
Share based compensation	17	(126)	(686)
Foreign exchange (loss) / gain		(96)	253
		(2,301)	(2,675)
Results from operating activities		(2,286)	(2,668)
Fair value gain / (loss) – outstanding warrants	21	1,084	(1,336)
Finance income	6	118	201
Finance expense	6	(298)	(193)
Net finance (expense) / income		(180)	8
Loss before tax		(1,382)	(3,996)
Taxation	8	-	-
Loss and comprehensive loss for the year		(1,382)	(3,996)
Loss and comprehensive loss attributable to:			
Equity holders of the company		(1,381)	(3,994)
Non-controlling interests		(1)	(2)
Loss and comprehensive loss for the year		(1,382)	(3,996)
Loss per share attributable to equity holders of the company:			
Basic and diluted	7	(\$0.001)	(\$0.004)

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

		At 31 December 2018 \$'000	At 31 December 2017 \$'000
	Notes		
Assets			
Non-current assets			
Exploration and evaluation assets	11	39,705	39,630
Property, plant and equipment	12	2	3
Trade and other receivables	13	31	33
Restricted cash	15	2,294	2,412
		42,032	42,078
Current assets			
Cash and cash on deposit	14	6,967	8,995
Trade and other receivables	13	100	186
		7,067	9,181
Total assets		49,099	51,259
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	16	383,737	383,570
Contributed surplus		45,063	44,937
Retained deficit		(391,604)	(390,223)
		37,196	38,284
Non-controlling interests		700	701
Total equity		37,896	38,985
Liabilities			
Non-current liabilities			
Decommissioning provision	22	10,102	9,886
		10,102	9,886
Current liabilities			
Accounts payable and accrued expenses	23	622	825
Derivative financial liabilities	21	479	1,563
		1,101	2,388
Total liabilities		11,203	12,274
Total equity and liabilities		49,099	51,259

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

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

		Share capital	Contributed surplus	Retained deficit	Equity interests of the parent	Non-controlling interests ("NCI")	Total equity
	Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2017		382,853	44,251	(386,229)	40,875	703	41,578
Options exercised		717	-	-	717	-	717
Share based compensation	17	-	686	-	686	-	686
Loss and total comprehensive loss for the year		-	-	(3,994)	(3,994)	(2)	(3,996)
At 31 December 2017		383,570	44,937	(390,223)	38,284	701	38,985
Options exercised		167	-	-	167	-	167
Share based compensation	17	-	126	-	126	-	126
Loss and total comprehensive loss for the year		-	-	(1,381)	(1,381)	(1)	(1,382)
At 31 December 2018		383,737	45,063	(391,604)	37,196	700	37,896

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

Falcon Oil & Gas Ltd.
Consolidated Statement of Cash flows

		Year Ended 31 December	
		2018	2017
	Notes	\$'000	\$'000
Cash flows from operating activities			
Net loss for the year		(1,382)	(3,996)
Adjustments for:			
Share based compensation	17	126	686
Depreciation	12	1	4
Fair value (gain) / loss - outstanding warrants	21,24	(1,084)	1,336
Net finance loss / (income)	6	180	(8)
Foreign exchange loss / (gain)		96	(251)
Change in non-cash working capital			
Trade and other receivables		88	5
Accounts payable and accrued expenses		(206)	184
Net cash used in operating activities		(2,181)	(2,040)
Cash flows from investing activities			
Interest received	6	118	117
Exploration and evaluation assets		(75)	(12)
Decrease / (increase) in cash deposits – other receivables		6,028	(1,758)
Net cash generated by / (used in) investing activities		6,071	(1,653)
Cash flows from financing activities			
Proceeds from the exercise of share options		167	717
Net cash generated by financing activities		167	717
Change in cash and cash equivalents		4,057	(2,976)
Effect of exchange rates on cash & cash equivalents		(57)	86
Cash and cash equivalents at beginning of year		2,967	5,857
Cash and cash equivalents at end of year	14	6,967	2,967

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

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

1. General Information

Falcon Oil & Gas Ltd. ("**Falcon**") is an oil and gas company engaged in the exploration and development of unconventional oil and gas assets. Falcon's interests are located in Australia, Hungary, South Africa and Canada. The carrying value at 31 December 2018 of the Company's interest in Australia is \$39.7 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. 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 Euronext Growth, a market regulated by the Irish Stock Exchange plc, trading as Euronext Dublin (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.

As at 31 December 2018 the Group had \$6.9m of cash and cash deposits, which is sufficient to cover ongoing operating costs for the next 12 months from the date of signing the financial statements. Work has recommenced on the Group's Beetaloo Sub-basin asset in the Northern Territory Australia. The Group entered Stage 2 of the work programme in August 2018, which has a Cost Cap of approximately A\$65 million. Costs above the Cost Cap would need to be financed by the Group in accordance with their 30% participating interest. Stage 2 of the work programme has only recently commenced, with drilling targeted for June 2019. As at the date of signing of these financial statements the estimation of the final costs for Stage 2, and therefore the amount, if any, that would need to be contributed by the Group remains uncertain.

The Directors and Management are confident that should further funding be required it can be raised through either an equity raise or debt funding. As at the date of this report no such further funding has been raised and there can be no certainty that sufficient funds can be raised if required. This indicates the existence of a material uncertainty, which may cast significant doubt over the Group's ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include adjustments that would result if the Group was unable to continue as a going concern. 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.

2. Accounting policies (continued)

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.

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 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 profit or 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 profit or loss

Financial assets at fair value through profit or 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.

2. Accounting policies (continued)

(ii) Financial assets at amortised cost

These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Group's financial assets measured at amortised cost comprise trade and other receivables, cash and cash equivalents and "restricted cash" in the consolidated statement of financial position.

Trade payables

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

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 2018 or 31 December 2017.

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 profit or 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.

2. Accounting policies (continued)

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.

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

2. Accounting policies (continued)

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.

(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.

2. Accounting policies (continued)

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.

Contributed surplus

Contributed surplus represents the corresponding entry to the expense recognised in the consolidated statement of operations and comprehensive loss for share based compensation.

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.

2. Accounting policies (continued)

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 \$39.7 million at 31 December 2018 (2017: \$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 the Management's Discussions and Analysis document for the year ended 31 December 2018, and specifically the section *Beetaloo Sub-Basin, Northern Territory, Australia*, pages 6-14, 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 moratorium on hydraulic fracturing has delayed the completion of the drilling and exploration programme.

The Group does not believe the delay brought about by the moratorium on hydraulic fracturing has impacted the carrying value of the asset. The inquiry concluded its work with the publication of a Final Report in March 2018 and

3. Critical accounting estimates and judgments

was followed by the Northern Territory government's decision to lift the moratorium in April 2018. Work has commenced at some well sites, including water bore drilling and water monitoring, with drilling targeted to commence in June 2019. The work programme and the announcements during 2018 and 2019 as outlined in the Management's Discussion & Analysis document for the year ended 31 December 2018, provide sufficient evidence to support the carrying value of the asset.

Critical estimates

(ii) 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. For further details please refer to Note 22 on page 31.

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.

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Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

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 2018					
Revenue	-	-	-	15	15
Net loss ⁽ⁱ⁾	(427)	(147)	(715)	(92)	(1,381)

At 31 December 2018

Capital assets ⁽ⁱⁱ⁾	39,705	-	-	2	39,707
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	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
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Year ended 31 December 2017

Revenue	-	-	-	7	7
Net loss ⁽ⁱ⁾	(482)	(373)	(487)	(2,652)	(3,994)

At 31 December 2017

Capital assets ⁽ⁱⁱ⁾	39,630	-	-	3	39,633
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(i) Net loss attributable to equity holders of the company.

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

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Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

6. Finance income and expense

	Notes	For the year ended 31 December	
		2018 \$'000	2017 \$'000
Finance income			
Interest income on bank deposits		118	117
Net foreign exchange gain		-	84
		118	201
Finance expense			
Accretion of decommissioning provisions	22	(221)	(193)
Net foreign exchange loss		(77)	-
		(298)	(193)
Net finance (expense) / income		(180)	8

7. Net loss per share

Basic and diluted loss per share is calculated as follows:

	For the year ended 31 December	
	2018 \$'000	2017 \$'000
Loss attributable to equity holders of the company	(1,381)	(3,994)
Weighted average number of common shares in issue - (thousands)	930,805	928,556
Loss / diluted loss per share	(\$0.001)	(\$0.004)

8. Income taxes

A reconciliation of the expected tax benefit computed by applying the combined federal and provincial Canadian tax rates of 28% (2017: 28%) to the loss before tax to the actual tax result is as follows:

	For the year ended 31 December	
	2018 \$'000	2017 \$'000
Loss before tax	(1,382)	(3,996)
Computed income tax benefit	(387)	(1,119)
Decrease in income taxes resulting from:		
Effect of foreign income tax rates	246	193
Non-deductible stock based compensation	35	192
Derivatives	(304)	374
Other	(372)	(561)
Change in deferred tax benefits not recognised	782	921
Tax result	-	-

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

8. Income taxes (continued)

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

	2018	At 31 December
	\$'000	2017
		\$'000
Trading losses	110,728	55,529
E&E assets and property, plant and equipment	170,002	180,642
Other	1,085	1,211
	281,815	237,382

The Group's accumulated trading losses carryforwards as at 31 December 2018 to reduce future years' taxable income are as follows:

	2018	2018	2017	2017
	\$'000	Expiration	\$'000	Expiration
Canada	28,238	2026 to 2038	30,723	2026 to 2037
United States	16,573	2027 to 2033	16,573	2027 to 2033
Hungary ⁽ⁱ⁾	59,353	2020 to 2030	2,787	2018 to 2022
Other	6,564	No expiration	5,446	No expiration
	110,728		55,529	

⁽ⁱ⁾ A change in Hungarian corporate income tax regulations in 2018, allows tax losses accumulated between 2004 and 2014 to be utilized up to and including the year ended 2030.

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	2018	420	30	6	229	4
	2017	390	60	5	48	103

⁽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.

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Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

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

Non - executive directors

	Director fees ⁽ⁱ⁾		Share - based payments ⁽ⁱⁱ⁾	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
JoAchim Conrad	48	48	1	34
Daryl Gilbert	42	42	1	21
Gregory Smith	42	42	1	21
Maxim Mayorets	42	42	1	21
Dr. György Szabó ⁽ⁱⁱⁱ⁾	-	18	-	11
	174	192	4	108

(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) Dr. György Szabó retired from the Board with effect from 30 June 2017.

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	
	2018 \$'000	2017 \$'000
Directors' fees	174	192
Salaries and other emoluments	907	662
Share based compensation	124	656
Defined contribution pension plans	51	77
	1,256	1,587

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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Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

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	
	2018	2017
	\$'000	\$'000
Exploration and evaluation expenses	34	77
General and administrative expenses	1,159	1,378
Share based compensation	126	686
	1,319	2,141

(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	
	2018	2017
	\$'000	\$'000
Audit fees	78	79
Tax fees	5	3
	83	82

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 2018	39,630	39,630
Addition	75	75
At 31 December 2018	39,705	39,705
	Australia	Total
	\$'000	\$'000
At 1 January 2017	39,618	39,618
Addition	12	12
At 31 December 2017	39,630	39,630

E&E assets consist of the Group's Australian exploration project which is 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 year ended 31 December 2018 on pages 6-14.

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

12. Property, plant and equipment

	Canadian natural gas interests \$'000	Pipeline and facilities \$'000	Furniture and equipment \$'000	Total \$'000
Cost:				
At 1 January 2018	466	4,108	46	4,620
At 31 December 2018	466	4,108	46	4,620
Depreciation:				
At 1 January 2018	(466)	(4,108)	(43)	(4,617)
Depreciation	-	-	(1)	(1)
At 31 December 2018	(466)	(4,108)	(44)	(4,618)
Net book value:				
At 31 December 2018	-	-	2	2

	Canadian natural gas interests \$'000	Pipeline and facilities \$'000	Furniture and equipment \$'000	Total \$'000
Cost:				
At 1 January 2017	466	4,108	46	4,620
At 31 December 2017	466	4,108	46	4,620
Depreciation:				
At 1 January 2017	(466)	(4,108)	(39)	(4,613)
Depreciation	-	-	(4)	(4)
At 31 December 2017	(466)	(4,108)	(43)	(4,617)
Net book value:				
At 31 December 2017	-	-	3	3

13. Trade and other receivables

	At 31 December	
	2018 \$'000	2017 \$'000
Non-current		
Deposits	31	33
	31	33

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

13. Trade and other receivables (continued)

	At 31 December	
	2018	2017
	\$'000	\$'000
Current		
Deposits	2	4
Prepayments	75	81
GST/ VAT receivable	20	25
Other receivables	3	76
	100	186

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	
	2018	2017
	\$'000	\$'000
Cash and cash equivalents	6,967	2,967
Cash on deposit	-	6,028
	6,967	8,995

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	
	2018	2017
	\$'000	\$'000
Restricted cash	2,294	2,412
	2,294	2,412

16. Share capital

As at 31 December 2018 and 2017, 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;

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

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:

	Note	Number of shares	Share capital \$'000
At 1 January 2017		921,537,517	382,853
Options exercised in 2017		8,866,666	717
At 31 December 2017		930,404,183	383,570
Options exercised in 2018	17	900,000	167
At 31 December 2018		931,304,183	383,737

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 \$126,000 during the year ended 31 December 2018 (2017: \$686,000).

Six million options were granted in the year to 31 December 2017 at an average exercise price of CDN\$0.20. Two million options vested immediately with an additional one third vesting on each subsequent anniversary until the options are fully vested on 22 February 2019.

38.7 million options were granted in the 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.

8.9 million options were exercised in the year to 31 December 2017. This included the six million options that Philip O'Quigley, a director of the Company exercised at a price of CDN\$0.10. The options were granted to Mr. O'Quigley on 1 May 2010 and were due to expire on 30 April 2017. A further 900,000 options were exercised in the year to 31 December 2018.

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

17. Share based compensation (continued)

A summary of the Group's stock option plan as of 31 December 2018 and 31 December 2017 and changes during the periods then ended, is presented below:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Number of options	Weighted average exercise price CDN\$	Number of options	Weighted average exercise price CDN\$
Outstanding as at beginning of period	42,233,334	0.13	45,100,000	0.12
Granted	-	-	6,000,000	0.20
Expired	(1,000,000)	0.24	-	-
Exercised	(900,000)	0.24	(8,866,666)	0.11
Outstanding as at end of period	40,333,334	0.13	42,233,334	0.13
Exercisable as at end of period	38,333,334	0.13	27,233,334	0.13

The exercise prices of the outstanding options are as follows:

Date of grant	Options	Exercise price CDN\$	Date of Expiry	Weighted average contractual life remaining (years)
26 January 2015	5,000,000	0.15	25 January 2020	1.07
15 January 2016	29,333,334	0.11	14 January 2021	2.04
22 February 2017	6,000,000	0.20	21 February 2022	3.15
	40,333,334	0.13		

There were no stock options granted in 2018. The fair value of the 2017 granted options was estimated using a Black Scholes model with the following inputs:

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

18. Overriding royalties

In 2013 Falcon Australia 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 Sub-Basin. The key transaction details were:

- Falcon Australia paid CRIAG \$999,000 on signing the CRIAG Agreement;
- Falcon Australia made a second payment to CRIAG of \$999,000 to acquire the first 3% 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% for \$5 million; and
- All ORRI's acquired under the CRIAG Agreement were immediately cancelled by Falcon Australia.

18. Overriding royalties (continued)

CRIAG was adjudicated bankrupt on 21 March 2017 following which the Company and Origin Energy B2 Pty Ltd. (“**Origin**”), our joint venture partner approached the liquidator of CRIAG (the “**Liquidator**”) with a view to terminating the ORRI. In October 2018, the Company announced that it along with Origin had signed a termination agreement with the Liquidator and paid CHF150,000 (approximately US\$151,000) to the Liquidator and the 1% ORRI was terminated.

Also, in 2013, Falcon Australia 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% of their 8% ORRI over Falcon Australia’s Exploration Permits in the Beetaloo Sub-Basin for the following consideration:

- Falcon Australia paid the TOG Group \$5 million to acquire 5% of their ORRI only on completion of a Beetaloo farm-out transaction;
- TOG Group granted Falcon Australia a five-year call option to acquire a further 2% of their ORRI for a payment of \$15 million;
- All ORRIs acquired under the Agreement were immediately cancelled by Falcon Australia; and
- TOG Group to retain a 1% ORRI.

The ORRI now stands at 3%. On **23 April 2019** it was announced that Falcon Australia had successfully negotiated a two-year extension of the call option up to and including 31 August 2021 (“the **Extension**”), to acquire its 30% portion of the 2% ORRI from the TOG Group. The Extension will be submitted to the Northern Territory government, Australia for review, approval and registration if required. Falcon Australia will pay US\$500,000 to the TOG Group for granting the Extension, with the cost of exercising Falcon Australia’s portion of the call option increasing from US\$4.5 million to US\$7.5 million.

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 2018 and 31 December 2017, the fair value of cash and cash on deposit, restricted cash, and accounts receivable, accounts payable and accrued expenses approximated their carrying value due to their short term to maturity.

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Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

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 2018 and 2017. 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 2018		31 December 2017	
	Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
Financial assets:				
Cash and cash on deposit including restricted cash	9,261	9,261	11,407	11,407
Accounts receivable	121	121	194	194
Financial Liabilities:				
<i>Other financial liabilities</i>				
Accounts payable and accrued expenses	622	622	825	825

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 2018		
Financial liabilities:		
Warrant	479	479
31 December 2017		
Financial liabilities:		
Warrant	1,563	1,563

All instruments in the table are Level 2 instruments. For further details on the valuation of the warrant please refer to note 21 on page 30.

(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.

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

20. Financial Instruments and risk management (continued)

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

31 December 2018	Carrying amount \$'000	Contractual cash flows \$'000	One year or less \$'000	One to three years \$'000
<i>Non-derivative financial liabilities</i>				
Accounts payable and accrued expenses	622	622	622	-
	622	622	622	-

Derivative financial liabilities:

Warrant	479	-	-	-
	479	-	-	-

31 December 2017	Carrying amount \$'000	Contractual cash flows \$'000	One year or less \$'000	One to three years \$'000
<i>Non-derivative financial liabilities</i>				
Accounts payable and accrued expenses	825	825	825	-
	825	825	825	-

Derivative financial liabilities:

Warrant	1,563	-	-	-
	1,563	-	-	-

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.

Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

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 2018 and 2017, and the changes therein for the years then ended, are as follows:

	Warrants \$'000	Total \$'000
At 1 January 2017	227	227
Derivative losses – unrealised – outstanding warrant	1,336	1,336
At 31 December 2017 - current	1,563	1,563
Derivative gains – unrealised – outstanding warrant	(1,084)	(1,084)
At 31 December 2018 - current	479	479

The terms of the warrant are as follows:

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

*Proceeds from 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:

	Warrant 31 December 2018	Warrant 31 December 2017
Number	10,000,000	10,000,000
Expiry	13 January 2020	13 January 2020
Exercise price	CDN\$0.19	CDN\$0.19
Volatility	57.271%	92.139%
Expected warrant life	1.04	2.04 years
Dividends	Nil	Nil
Risk-free rate	1.85%	1.67%

On 3 October 2017, Falcon announced the transfer of the warrant to acquire 10,000,000 common shares in the capital of Falcon by Hess Oil and Gas Holdings Inc. to Nicolas Mathys. The terms of the warrant remain unchanged, with an exercise price of CDN\$0.19 per share and an expiry date of 13 January 2020.

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Falcon Oil & Gas Ltd.
Notes to the Consolidated Financial Statements
Year Ended 31 December 2018

22. Decommissioning Provision

A reconciliation of the decommissioning provision for the years ended 31 December 2018 and 2017 is provided below:

	2018	2017
	\$'000	\$'000
Balance as at beginning of year	9,886	9,690
Revision to provisions – primarily movement on foreign exchange	(5)	3
Accretion	221	193
Balance as at end of year – non-current	10,102	9,886

The Group's decommissioning provision results from its ownership interest in oil and natural gas assets. The total decommissioning provision is estimated based on the Group's net ownership interest in the wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years. The Group has estimated the net present value of the decommissioning provision to be \$9.9 million as at 31 December 2018 (2017: \$9.8 million) based on an undiscounted total future liability of \$12.1 million (2017: \$12.2 million). These payments are expected to be made over approximately the next nine years. The discount factor, being the risk free rate related to the liability, was 2.25% as at 31 December 2018 (2017: 2.25%).

23. Accounts payable and accrued expenses

	At 31 December	
	2018	2017
	\$'000	\$'000
Current		
Accounts payable	140	136
Accrued expenses	464	673
Royalties payable	18	16
	622	825

24. Notes supporting statement of cash flows

	Notes	Derivative liability \$'000
At 1 January 2018		1,563
Non-cash flows – fair value gain unrealised	21	(1,084)
At 31 December 2018		479

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25. 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 and was subsequently terminated on 28 February 2017. Senzus Kft. was paid no consultancy fee for the year ended 31 December 2018 (2017: \$17,000).

Senzus Plus Tanácsadó Bt.

On 1 March 2017, Senzus Plus Tanácsadó Bt. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The contract was subsequently terminated with effect on 28 February 2018. It was paid a consultancy fee of \$9,700 for the year ended 31 December 2018 (2017: \$30,258).

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 \$27,988 for the period ended 31 December 2018 (2017: \$0).

Oakridge Financial Management Inc.

The Group engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canada Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc. The Group incurred costs of approximately CDN\$472 (2017: CDN\$800) to Oakridge Financial Management Inc. during the year ended 31 December 2018. From Q4 2018, Oakridge Financial Management Inc. no longer assists with the submission of returns to Canada Revenue Agency.

26. Commitments and contingencies

(i) Lease commitments

The Group has the following lease agreement for office space at 31 December 2018:

- Dublin, Ireland, expiring April 2021.

The Group is obligated to pay the following minimum future rental commitments under non-cancelable operating leases at 31 December 2018 and 31 December 2017 during the following periods:

	As at 31 December 2018	As at 31 December 2017
	\$'000	\$'000
2018	-	46
The next year	10	10
Years two through five combined	13	-
Beyond five years	-	-
Total	23	56

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26. Commitments and contingencies (continued)

(ii) 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. Stage 2 of the work programme has only recently commenced, with drilling targeted for June 2019. As at the date of signing of these financial statements the estimation of the final costs for Stage 2, and therefore the amount, if any, that would need to be contributed by the Group remains uncertain.

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing has delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work has already commenced at some well sites, including water bore drilling and water monitoring.

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.

27. 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 16 Leases	January 2016	1 January 2019
IFRS 17 Insurance contracts	May 2014	1 January 2021

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2018 but have not had a material effect on the Group and so have not been discussed in detail in the notes to the financial statements:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15)

28. Subsequent Events

On 23 April 2019 it was announced that Falcon Australia had successfully negotiated a two-year extension of the call option up to and including 31 August 2021, to acquire its 30% portion of the 2% ORRI from the TOG Group. The Extension will be submitted to the Northern Territory government, Australia for review, approval and registration if required.

Falcon Australia will pay US\$500,000 to the TOG Group for granting the Extension, with the cost of exercising Falcon Australia's portion of the call option increasing from US\$4.5 million to US\$7.5 million.

29. Approval of financial statements

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 24 April 2019.

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