**Falcon Oil & Gas Ltd.**

Consolidated Financial Statements
Year Ended 31 December 2019

(Presented in U.S. Dollars)

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## 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, 2019 and 2018, 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, 2019 and 2018, 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.

**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.

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.

## INDEPENDENT AUDITOR'S REPORT (continued)

### 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.

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.

## INDEPENDENT AUDITOR'S REPORT (continued)

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

BDO LLP

Chartered Professional Accountants, Licensed Public Accountants.
*BDO LLP*
*Chartered Accountants*
*London, UK*
*28 April 2020*

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

| | Notes | Year Ended 31 December 2019 $'000 | Year Ended 31 December 2018 $'000 |
|---|---|---|---|
| **Revenue** | | | |
| Oil and natural gas revenue | 5 | **5** | 15 |
| | | **5** | 15 |
| **Expenses** | | | |
| Exploration and evaluation expenses | | **(233)** | (159) |
| Production and operating expenses | | **(13)** | (10) |
| General and administrative expenses | | **(1,780)** | (1,910) |
| Share based compensation | 15 | **(12)** | (126) |
| Foreign exchange loss | | **(70)** | (96) |
| | | **(2,108)** | (2,301) |
| **Results from operating activities** | | **(2,103)** | (2,286) |
| Fair value gain – outstanding warrants | 19 | **369** | 1,084 |
| Finance income | 6 | **221** | 118 |
| Finance expense | 6 | **(226)** | (298) |
| Net finance expense | | **(5)** | (180) |
| **Loss before tax** | | **(1,739)** | (1,382) |
| Taxation | 8 | **-** | - |
| **Loss and comprehensive loss for the year** | | **(1,739)** | (1,382) |
| Loss and comprehensive loss attributable to: | | | |
| Equity holders of the company | | **(1,739)** | (1,381) |
| Non-controlling interests | | **-** | (1) |
| **Loss and comprehensive loss for the year** | | **(1,739)** | (1,382) |
| Loss per share attributable to equity holders of the company: | | | |
| Basic and diluted | 7 | **($0.002)** | ($0.001) |

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 2019 $'000 | At 31 December 2018 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 11 | **40,246** | 39,705 |
| Property, plant and equipment | | **1** | 2 |
| Trade and other receivables | | **30** | 31 |
| Restricted cash | 13 | **2,241** | 2,294 |
| | | **42,518** | 42,032 |
| **Current assets** | | | |
| Cash and cash equivalents | 12 | **13,066** | 6,967 |
| Trade and other receivables | | **141** | 100 |
| | | **13,207** | 7,067 |
| **Total assets** | | **55,725** | 49,099 |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 14 | **392,170** | 383,737 |
| Contributed surplus | | **45,075** | 45,063 |
| Retained deficit | | **(393,343)** | (391,604) |
| | | **43,902** | 37,196 |
| **Non-controlling interests** | | **700** | 700 |
| **Total equity** | | **44,602** | 37,896 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Decommissioning provision | 20 | **10,331** | 10,102 |
| | | **10,331** | 10,102 |
| **Current liabilities** | | | |
| Accounts payable and accrued expenses | 21 | **682** | 622 |
| Derivative financial liabilities | 19 | **110** | 479 |
| | | **792** | 1,101 |
| **Total liabilities** | | **11,123** | 11,203 |
| **Total equity and liabilities** | | **55,725** | 49,099 |

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 2018 | | 383,570 | 44,937 | (390,223) | **38,284** | 701 | **38,985** |
| Options exercised | | 167 | - | - | **167** | - | **167** |
| Share based compensation | 15 | - | 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** |
| Raised Equity | 14 | 8,433 | - | - | **8,433** | - | **8,433** |
| Share based compensation | 15 | - | 12 | - | **12** | - | **12** |
| Loss and total comprehensive loss for the year | | - | - | (1,739) | **(1,739)** | - | **(1,739)** |
| **At 31 December 2019** | | 392,170 | 45,075 | (393,343) | **43,902** | 700 | **44,602** |

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

**Falcon Oil & Gas Ltd.**
**Consolidated Statement of Cash flows**

| | | Year Ended 31 December | |
|---|---|---|---|
| | **Notes** | **2019** **$'000** | 2018 $'000 |
| **Cash flows from operating activities** | | | |
| Net loss for the year | | **(1,739)** | (1,382) |
| Adjustments for: | | | |
| Share based compensation | 15 | **12** | 126 |
| Depreciation | | **1** | 1 |
| Fair value gain - outstanding warrants | 19,22 | **(369)** | (1,084) |
| Net finance loss | 6 | **5** | 180 |
| Foreign exchange loss | | **70** | 96 |
| Change in non-cash working capital | | | |
| (Increase) / decrease in trade and other receivables | | **(41)** | 88 |
| Increase / (decrease) in accounts payable and accrued expenses | | **88** | (206) |
| **Net cash used in operating activities** | | **(1,973)** | (2,181) |
| **Cash flows from investing activities** | | | |
| Interest received | 6 | **136** | 118 |
| Exploration and evaluation assets | | **(541)** | (75) |
| Decrease in cash deposits – other receivables | | **-** | 6,028 |
| **Net cash (used in) / generated by investing activities** | | **(405)** | 6,071 |
| **Cash flows from financing activities** | | | |
| Proceeds from the exercise of share options | | **-** | 167 |
| Raised Equity | 14 | **8,433** | - |
| **Net cash generated by financing activities** | | **8,433** | 167 |
| Change in cash and cash equivalents | | **6,055** | 4,057 |
| Effect of exchange rates on cash & cash equivalents | | **44** | (57) |
| Cash and cash equivalents at beginning of year | | **6,967** | 2,967 |
| **Cash and cash equivalents at end of year** | 12 | **13,066** | 6,967 |

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 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 2019 of the Company's interest in Australia is $40.2 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) and AIM, a market operated by the London Stock Exchange (symbol: FOG).

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

## 2. Accounting policies

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 a period of at least twelve months from the date of approval of these financial statements . As noted on 26 March 2020 given the unprecedented circumstances brought about by COVID-19 the joint venture decided to temporarily pause activities to the latter half of 2020, which will result in reduced project costs for a number of months. Furthermore, on 7 April 2020 it was announced that Falcon Australia had agreed to farm down 7.5% of its participating interest in the Exploration Permits, following the transaction, Falcon Australia holds a 22.5% participating interest. In consideration for the farm down Origin Energy B2 Pty Ltd. ("**Origin**") agreed to increase the gross cost cap of the work program by A$150.5 million. The previous farm-in arrangement included a Stage 2 gross cost cap of A$65.3 million and a Stage 3 gross cost cap of A$48 million, or A$113.3 million in total. Under the Agreements, the Stage 2 and Stage 3 gross cost caps will be combined and increased by A$150.5 million to A$263.8 million. Northern Territory government approval remains outstanding; however, management expects this will be received in due course. It was also confirmed as part of the same announcement that Origin expects a delay to the Kyalla Well stimulation and extended production test of at least 3 months to now occur in H2 2020, and the drilling of the Velkerri Flank well in H1 2021, which will result in reduced project costs up to the resumption of drilling activities. 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 realise its assets and discharge its liabilities in the normal course of business.

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

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

## 2. Accounting policies (continued)

### 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.

### 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.

On 21 August 2014, Falcon Australia completed its farm-out agreement and joint operating agreement (collectively the **"**Agreements") with the Farminees, Origin and Sasol Petroleum Australia Limited ("**Sasol**"), each farming into 35% of Falcon Australia's exploration permits in the Beetaloo Sub-basin, Australia. In return for farming into the Exploration Permits, the Farminees agreed to carry Falcon Australia in a nine well exploration and appraisal programme with the Farminees paying for the full cost of completing the first five wells, the next two wells to a capped expenditure of A$53 million and the final 2 wells in the programme to a capped expenditure of A$48 million, costs above the capped expenditure were paid in line with the party's participating interest. Origin was appointed as operator. In 2017 Origin acquired Sasol's 35%, the transaction did not impact the 2014 farm-out agreement.

## 2. Accounting policies (continued)

In 2018, the farm-out agreement was amended deeming Stage 1 of the exploration and appraisal programme complete and the commencement of Stage 2 with a A$15 million increase to the Stage 2 capped expenditure. There was further amendments to the farm-out agreement in April 2020 with the announcement that Falcon Australia had agreed to farm down 7.5% of its participating interest in the Exploration Permits, following the transactions, Falcon Australia holds a 22.5% participating interest. In consideration for the farm down Origin agreed to increase the gross cost cap of the work program by A$150.5 million. The previous farm-in arrangement included a Stage 2 gross cost cap of A$65.3 million and a Stage 3 gross cost cap of A$48 million, or A$113.3 million in total. Under the Agreements, the Stage 2 and Stage 3 gross cost caps will be combined and increased by A$150.5 million to A$263.8 million.

For further details on the permits, the farm out of the Beetaloo and results to date please refer to Management's Discussions and Analysis document for the year ended 31 December 2019, and specifically the section *Beetaloo Sub-Basin, Northern Territory, Australia,* pages 6-16.

### Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the financial asset was 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.

***(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.

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.

## 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 2019 or 31 December 2018.

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.

### 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.

**Leases**

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:
- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease would be used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:
- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonable certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and

**2. Accounting policies (continued)**

- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

**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.

**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.

## 2. Accounting policies (continued)

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 accretion of the discount on provisions 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 $40.2 million at 31 December 2019 (2018: $39.7 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 2019, and specifically the section *Beetaloo Sub-Basin, Northern Territory, Australia,* pages 6-16, 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 impacted the carrying value of the asset. The inquiry concluded its work with the publication of a Final Report in March 2018 and was followed by the Northern Territory government's decision to lift the moratorium in April 2018.

Work re-commenced in 2019, the announcements during 2019 and 2020 along with the 2017 Discovery Evaluation Report from the Amungee NW-1H well as outlined in the Management's Discussion & Analysis document for the year ended 31 December 2019, 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 20 on page 29.

## 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 for twelve months from the date of these financial statements.

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 2019** | | | | | |
| **Revenue** | **-** | **-** | **-** | **5** | **5** |
| **Net loss (i)** | **(353)** | **(112)** | **(629)** | **(645)** | **(1,739)** |
| **At 31 December 2019** | | | | | |
| **Capital assets (ii)** | **40,246** | **-** | **-** | **1** | **40,247** |

| | 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 |

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

## 6. Finance income and expense

| | Notes | For the year ended 31 December<br>**2019**<br>**$'000** | <br>2018<br>$'000 |
|---|---|---|---|
| **Finance income** | | | |
| Interest income on bank deposits | | **136** | 118 |
| Net foreign exchange gain | | **85** | - |
| | | **221** | 118 |
| **Finance expense** | | | |
| Accretion of decommissioning provisions | 20 | **(226)** | (221) |
| Net foreign exchange loss | | **-** | (77) |
| | | **(226)** | (298) |
| Net finance expense | | **(5)** | (180) |

## 7. Net loss per share

Basic and diluted loss per share is calculated as follows:

| | For the year ended 31 December<br>**2019**<br>**$'000** | <br>2018<br>$'000 |
|---|---|---|
| Loss attributable to equity holders of the company | **(1,739)** | (1,381) |
| Weighted average number of common shares in issue - (thousands) | **962,876** | 930,805 |
| Loss / diluted loss per share | **($0.002)** | ($0.001) |

Future shares issuable under the Group share option plan would be anti-dilutive as those shares would reduce the loss per share.

## 8. Income taxes

A reconciliation of the expected tax benefit computed by applying the combined federal and provincial Canadian tax rates of 28% (2018: 28%) to the loss before tax to the actual tax result is as follows:

| | For the year ended 31 December<br>**2019**<br>**$'000** | <br>2018<br>$'000 |
|---|---|---|
| Loss before tax | **(1,739)** | (1,382) |
| Computed income tax benefit | **(487)** | (387) |
| Decrease in income taxes resulting from: | | |
| Effect of foreign income tax rates | **214** | 246 |
| Non-deductible stock based compensation | **4** | 35 |
| Derivatives | **(103)** | (304) |
| Other | **(44)** | (372) |
| Change in deferred tax benefits not recognised | **416** | 782 |
| Tax result | **-** | - |

## 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 |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Trading losses | **110,413** | 110,728 |
| E&E assets and property, plant and equipment | **162,543** | 170,002 |
| Other | **1,106** | 1,085 |
| | **274,062** | 281,815 |

The Group's accumulated trading losses carryforwards as at 31 December 2019 to reduce future years' taxable income are as follows:

| | **2019** | **2019** | 2018 | 2018 |
|---|---|---|---|---|
| | **$'000** | **Expiration** | $'000 | Expiration |
| Canada | **29,635** | **2026 to 2039** | 28,238 | 2026 to 2038 |
| United States | **16,568** | **2027 to 2033** | 16,573 | 2027 to 2033 |
| Hungary [(i)] | **56,638** | **2020 to 2030** | 59,353 | 2020 to 2030 |
| Other | **7,572** | **No expiration** | 6,564 | No expiration |
| | **110,413** | | 110,728 | |

[(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 | **2019** | **480** | **-** | **5** | **-** | **-** |
| | 2018 | 420 | 30 | 6 | 229 | 4 |

[(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 15.

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

**Non - executive directors**

| | Director fees[i] | | Share - based payments[ii] | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **$'000** | $'000 | **$'000** | $'000 |
| JoAchim Conrad | **48** | 48 | **-** | 1 |
| Daryl Gilbert | **42** | 42 | **-** | 1 |
| Gregory Smith | **42** | 42 | **-** | 1 |
| Maxim Mayorets | **42** | 42 | **-** | 1 |
| | **174** | 174 | **-** | 4 |

**(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 15.

**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 | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Directors' fees | **174** | 174 |
| Salaries and other emoluments | **688** | 907 |
| Share based compensation | **12** | 124 |
| Defined contribution pension plans | **20** | 51 |
| | **894** | 1,256 |

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 and Chief Financial Officer.

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 | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Exploration and evaluation expenses | **29** | 34 |
| General and administrative expenses | **1,091** | 1,159 |
| Share based compensation | **12** | 126 |
| | **1,132** | 1,319 |

***(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 | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Audit fees | **80** | 78 |
| Tax fees | **11** | 5 |
| | **91** | 83 |

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

## 11. Exploration and evaluation assets

| | **Australia** | **Total** |
|---|---|---|
| | **$'000** | **$'000** |
| At 1 January 2019 | **39,705** | **39,705** |
| Addition | **541** | **541** |
| **At 31 December 2019** | **40,246** | **40,246** |

| | Australia | Total |
|---|---|---|
| | $'000 | $'000 |
| At 1 January 2018 | 39,630 | 39,630 |
| Addition | 75 | 75 |
| At 31 December 2018 | 39,705 | 39,705 |

Exploration and evaluation 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 2019 on pages 6-16.

## 12. Cash and cash equivalents

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

| | | At 31 December |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Cash and cash equivalents | **13,066** | 6,967 |
| | **13,066** | 6,967 |

## 13. 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 |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Restricted cash | **2,241** | 2,294 |
| | **2,241** | 2,294 |

## 14. Share capital

As at 31 December 2019 and 2018, 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;
- 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.

### 14. Share capital (continued)

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

| | Number of shares | Share capital $'000 |
|---|---|---|
| At 1 January 2018 | 930,404,183 | 383,570 |
| Options exercised in 2018 | 900,000 | 167 |
| At 31 December 2018 | 931,304,183 | 383,737 |
| Private Placement – May 2019 | **50,543,242** | **8,996** |
| Private Placement – May 2019 – expenses | **-** | **(563)** |
| **2019 Sub-total** | **50,543,242** | **8,433** |
| **At 31 December 2019** | **981,847,425** | **392,170** |

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

### 15. 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 $12,000 during the year ended 31 December 2019 (2018: $126,000).

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 were fully vested on 22 February 2019.

900,000 options were exercised in the year to 31 December 2018, there were no share options exercised during 2019.

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## 15. Share based compensation (continued)

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

| | **Year ended 31 December 2019** | | Year ended 31 December 2018 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price CDN$** | Number of options | Weighted average exercise price CDN$ |
| Outstanding as at beginning of period | **40,333,334** | 0.13 | 42,233,334 | 0.13 |
| Expired | **-** | - | (1,000,000) | 0.24 |
| Exercised | **-** | - | (900,000) | 0.24 |
| Outstanding as at end of period | **40,333,334** | 0.13 | 40,333,334 | 0.13 |
| Exercisable as at end of period | **40,333,334** | 0.13 | 38,333,334 | 0.13 |

The exercise prices of the outstanding options are as follows:

| **Date of grant** | **Options** | **Exercise price CDN$** | **Date of Expiry** | **Weighted average contractual life remaining (years)** |
|---|---|---|---|---|
| 26 January 2015 | 5,000,000 | 0.15 | 25 January 2020 | 0.07 |
| 15 January 2016 | 29,333,334 | 0.11 | 14 January 2021 | 1.04 |
| 22 February 2017 | 6,000,000 | 0.20 | 21 February 2022 | 2.15 |
| | **40,333,334** | 0.13 | | |

There were no stock options granted in 2019 or 2018.

## 16. 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.

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.

### 16. Overriding royalties (continued)

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 it's 30% portion of the 2% ORRI from the TOG Group. The Extension was submitted to the Northern Territory government, Australia for review and registration, with confirmation of registration received on 1 August 2019. Following confirmation of registration, Falcon Australia paid $500,000 to the TOG Group for granting the Extension, with the cost of exercising the call option increasing from $4.5 million to $7.5 million.

On **7 April 2020** it was announced that Falcon Australia had agreed to farm down 7.5% of its participating interest ("**PI**") in the exploration permits in the Beetaloo Sub-basin. Following the transaction, Falcon Australia now holds a 22.5% PI. As part of that deal Origin assumes 25% of the cost of Falcon Australia's remaining call option to reduce the overriding royalties with the TOG Group. The cost to Falcon Australia should it wish to exercise the call option, will reduce from US$7.5million to US$5.625 million, in line with the reduced PI.

### 17. 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 2019 and 31 December 2018, 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.

### 18. 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 2019 and 2018. The carrying value of cash and cash on deposit, restricted cash, accounts receivable, and accounts payable and accrued expenses included in the consolidated statement of financial position approximate fair value due to the short term nature of those instruments. Financial assets in the table below are measured at amortised cost.

| | **31 December 2019** | | 31 December 2018 | |
|---|---|---|---|---|
| | **Carrying value $'000** | **Fair value $'000** | Carrying value $'000 | Fair value $'000 |
| **Financial assets:** | | | | |
| Cash and cash on deposit including restricted cash | **15,307** | **15,307** | 9,261 | 9,261 |
| Accounts receivable | **161** | **161** | 121 | 121 |
| **Financial Liabilities:** | | | | |
| *Other financial liabilities* | | | | |
| Accounts payable and accrued expenses | **682** | **682** | 622 | 622 |

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

*Level 1 Fair Value Measurements*
- Level 1 fair value measurements are based on unadjusted quoted market prices.

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

**18. Financial Instruments and risk management (continued)**

*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 2019** | | |
| Financial liabilities: | | |
| Warrant | **110** | **110** |
| **31 December 2018** | | |
| Financial liabilities: | | |
| Warrant | 479 | 479 |

All instruments in the table are Level 2 instruments. For further details on the valuation of the warrant please refer to note 19 on page 29.

***(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. The Group notes the most recent credit ratings per Fitch for its main financial institutions as follows; Commonwealth Bank of Australia at A+, The Bank of Nova Scotia, AA- and Bank of Ireland at BBB+.

*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 2019 | 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 | **682** | **682** | **682** | **-** |
| | **682** | **682** | **682** | **-** |
| *Derivative financial liabilities:* | | | | |
| Warrant | **110** | **-** | **-** | **-** |
| | **110** | **-** | **-** | **-** |

## 18. Financial Instruments and risk management (continued)

| 31 December 2018 | 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 | 622 | 622 | 622 | - |
| | 622 | 622 | 622 | - |
| *Derivative financial liabilities:* | | | | |
| Warrant | 479 | - | - | - |
| | 479 | - | - | - |

*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.

## 19. 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 2019 and 2018, and the changes therein for the years then ended, are as follows:

| | Warrants $'000 | Total $'000 |
|---|---|---|
| At 1 January 2018 | 1,563 | 1,563 |
| Derivative gains – unrealised – outstanding warrant | (1,084) | (1,084) |
| At 31 December 2018 - current | 479 | 479 |
| Derivative gains – unrealised – outstanding warrant | **(369)** | **(369)** |
| **At 31 December 2019 – current** | **110** | **110** |

### 19. Derivative liabilities (continued)

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 2019** | Warrant 31 December 2018 |
|---|---|---|
| **Number** | **10,000,000** | 10,000,000 |
| **Expiry** | **13 January 2020** | 13 January 2020 |
| **Exercise price** | **CDN$0.19** | CDN$0.19 |
| **Volatility** | **53.572%** | 57.271% |
| **Expected warrant life** | **0.04** | 1.04 |
| **Dividends** | **Nil** | Nil |
| **Risk-free rate** | **1.69%** | 1.85% |

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

### 20. Decommissioning Provision

A reconciliation of the decommissioning provision for the years ended 31 December 2019 and 2018 is provided below:

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Balance as at beginning of year | **10,102** | 9,886 |
| Revision to provisions – primarily movement on foreign exchange | **3** | (5) |
| Accretion | **226** | 221 |
| Balance as at end of year – non-current | **10,331** | 10,102 |

The Group's decommissioning provision results from its ownership interest in oil and natural gas assets. The total decommissioning provision is estimated based on the Group's net ownership interest in the wells, estimated costs to reclaim and abandon these wells and the estimated timing of the costs to be incurred in future years. The Group has estimated the net present value of the decommissioning provision to be $10.3 million as at 31 December 2019 (2018: $10.1 million) based on an undiscounted total future liability of $12.1 million (2018: $12.1 million). These payments are expected to be made in 8 years. The discount factor, being the risk free rate related to the liability, was 2.25% as at 31 December 2019 (2018: 2.25%). The inflation factor related to the liability, was 1.88% as at 31 December 2019 (2018: 2.01%).

## 21. Accounts payable and accrued expenses

| | | At 31 December |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| **Current** | | |
| Accounts payable | **194** | 140 |
| Accrued expenses | **467** | 464 |
| Royalties payable | **21** | 18 |
| | **682** | 622 |

## 22. Notes supporting statement of cash flows

| | Notes | Derivative liability $'000 |
|---|---|---|
| At 1 January 2019 | | 479 |
| Non-cash flows – fair value gain unrealised | 19 | (369) |
| **At 31 December 2019** | | 110 |

## 23. 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 Plus Tanácsadó Bt.*
On 1 March 2017, Senzus Plus Tanácsadó Bt. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The contract was subsequently terminated with effect on 28 February 2018. There was no consultancy fee the year ended 31 December 2019 (2018: $9,700).

*Geoportal Plus Tanácsadó Bt.*
On 1 March 2018, *Geoportal Plus Tanácsadó Bt*. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. It was paid a consultancy fee of $34,794 for the period ended 31 December 2019 (2018: $27,988).

*Oakridge Financial Management Inc.*
The Group previously engaged Oakridge Financial Management Inc. ("**Oakridge**") to assist in submitting returns to the Canada Revenue Agency ("**CRA**"). Mr. Greg Smith, a current director of Falcon, is the sole shareholder of Oakridge. Oakridge no longer provides assistance for returns submitted to the CRA; therefore the Group did not incur costs during the period ended 31 December 2019 (2018: CDN$472). From Q4 2018, Oakridge no longer assisted with the submission of returns to the CRA.

## 24. Commitments and contingencies

***Work program commitments***

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

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

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

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

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work recommenced in 2019, details are included in the Management's Discussion & Analysis for the year ended 31 December 2019 on pages 13 to 16.

Drilling in Stage 2 of the work programme commenced in October 2019, with drilling of the Kyalla 117 N2-1H ST2 horizontal well completed in February 2020. In March 2020 it was announced that given the unprecedented circumstances brought about by COVID-19 that the joint venture would temporarily pause activities with plans to resume in the latter half of 2020.

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

Origin expects a delay to the Kyalla Well stimulation and extended production test of at least 3 months to now occur in H2 2020, and the drilling of the Velkerri Flank well in H1 2021.

*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.

### 25. 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 the adoption of these new standards and interpretations, to have a material impact on the financial statements as they are neither relevant nor require accounting which is consistent with the Group's current accounting policies.

| **New Standards, Interpretations and Amendments applicable to future periods** | **Effective date** |
|---|---|
| Amendments to References to the Conceptual Framework in IFRS Standards | 1 January 2020 |
| Amendments to IFRS 3 Business Combinations – Definition of a Business | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 – Definition of Material | 1 January 2020 |
| Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 | 1 January 2020 |
| IFRS 17 Insurance contracts | 1 January 2021 |

| **New Standards, Interpretations and Amendments effective for periods beginning 1 January 2019** | **Effective date** |
|---|---|
| IFRS 16 Leases | 1 January 2019 |

### 26. Subsequent Events

The warrant with an expiry date of 13 January 2020 to acquire 10,000,000 common shares in the capital of Falcon as per note 19 on page 29 was not exercised and expired.

On 26 March 2020 it was announced that given the unprecedented circumstances brought about by COVID-19 that the joint venture would temporarily pause activities with plans to resume in the latter half of 2020. Full details are included in Falcon's Management's Discussions and Analysis document for the year ended 31 December 2019 on pages 15-16.

On 7 April 2020 Falcon announced that Falcon Australia had executed an agreement which includes a restated Farm-Out Agreement and Joint Operating Agreement (collectively "the Agreements") with Origin to farm down 7.5% of Falcon Australia's PI in the Exploration Permits in the Beetaloo Sub-basin, Northern Territory, Australia, leaving it with a 22.5% PI in the Exploration Permits. Full details are included in Falcon's Management's Discussions and Analysis document for the year ended 31 December 2019 on page 16.

### 27. Approval of financial statements

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 28 April 2020.

**[End of document]**