



**Falcon Oil & Gas Ltd.**

Consolidated Financial Statements  
Year Ended 31 December 2022

(Presented in U.S. Dollars)

**Falcon Oil & Gas Ltd.**  
**Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**Table of Contents**

	<b>Page Number</b>
Independent Auditors' Report	3
Consolidated Statement of Operations and Comprehensive Loss	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	10
Notes to the Consolidated Financial Statements	11

**Falcon Oil & Gas Ltd.**  
**Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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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, 2022 and December 31, 2021, and the consolidated statements of operations and comprehensive loss, consolidated statement of changes in equity, consolidated statement of 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, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

**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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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 the going concern section in Note 2 to the consolidated financial statements, which explains that the Group requires additional funding in the next twelve months after the approval of the consolidated financial statements in order to continue as a going concern.

As stated in Note 2, these events or conditions 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.

For the reason set out above and based on our risk assessment, we determined going concern to be a key audit matter. We performed the following audit procedures in response to this key audit matter:

- Obtaining Management's cash flow forecasts for the period to May 2024 and assessing the key underlying assumptions, including forecast levels of expenditure and exploration costs used in preparing these forecasts. In doing so we considered actual costs incurred in the financial year 2022 as well as budgeted and contracted commitments for the going concern period to May 2024.
- Performing sensitivity analysis in respect of key assumptions underpinning the forecasts, including operational costs and level of exploration expenditure, and assessing the levels of funding required under each sensitivity.
- Corroborating the opening cash position in the forecast to bank statements.
- Assessing the integrity of the cash flow forecasts.
- Discussing with Management and the Board the Group's strategy to ensure funds are available to the Group to fund its operations corroborating these to publicly available information and third-party documentation where available. Verifying the budget for the financial year 2023 exploration program to planned budgets from the joint venture partner.

**Falcon Oil & Gas Ltd.**  
**Consolidated Financial Statements**  
**Year Ended 31 December 2022**

---

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

- Reviewing and considering the adequacy of the disclosure within the consolidated financial statements relating to the Management's assessment of the going concern basis of preparation.

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report.

***Carrying value of exploration and evaluation assets***

The exploration and evaluation assets form a significant part of the Group's statement of financial position totaling \$43m. Management is required to consider whether there are any facts or circumstances (potential impairment indicators) that would suggest that the assets could be impaired.

As part of its impairment indicators evaluation, Management considered key developments that occurred during 2022 including the probability of renewal of expired licences, the impact of gas prices, and the impact of local and global geopolitical factors.

Management concluded that there were no impairment indicators for the exploration and evaluation assets.

Given the materiality of the assets in the context of the Group's statement of financial position and the judgements involved in making this assessment, we considered the carrying value of exploration and evaluation assets to be a key audit matter.

Our specific audit testing in this regard included:

- Reviewing and assessing Management's assessment of impairment indicators against the requirements of the applicable accounting standards.
- Assessing performance against budgets/plans for year ended 2022 and budgets for year ended 2023 in order to identify possible indicators of impairment.
- Reviewing the presentations, board minutes and public information from the Group's current and previous joint venture partner to obtain an understanding of the work programs and matters relevant to the licenses.
- Reviewing the validity of existing licences, the application of renewal to expired licences and Management's assessment of the impact of licence renewals on the carrying value of the exploration and evaluation assets, including challenging Management on the timing of the licence renewal process.

**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.

**Falcon Oil & Gas Ltd.**  
**Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of the 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.

**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 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 scepticism 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.

**Falcon Oil & Gas Ltd.**  
**Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

- 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditor's report is Jill MacRae.

/s/ BDO LLP

BDO LLP  
Chartered Professional Accountants  
London, United Kingdom  
27 April 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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

	Notes	Year Ended 31 December 2022 \$'000	Year Ended 31 December 2021 \$'000
<b>Revenue</b>			
Oil and natural gas revenue	5	-	2
		-	2
<b>Expenses</b>			
Exploration and evaluation expenses		(151)	(196)
General and administrative expenses	16	(2,865)	(3,031)
Decommissioning provision	21	(825)	(991)
Foreign exchange loss		(138)	(238)
		(3,979)	(4,456)
<b>Results from operating activities</b>		<b>(3,979)</b>	<b>(4,454)</b>
Finance income	6	298	7
Finance expense	6	(310)	(249)
Net finance expense		(12)	(242)
<b>Loss before tax</b>		<b>(3,991)</b>	<b>(4,696)</b>
Taxation	8	-	-
<b>Loss and comprehensive loss for the year</b>		<b>(3,991)</b>	<b>(4,696)</b>
Loss and comprehensive loss attributable to:			
Equity holders of the company		(3,994)	(4,693)
Non-controlling interests		3	(3)
<b>Loss and comprehensive loss for the year</b>		<b>(3,991)</b>	<b>(4,696)</b>
Loss per share attributable to equity holders of the company:			
Basic and diluted	7	(\$0.004)	(\$0.005)

The notes on pages 11 to 32 are an integral part of these consolidated financial statements.

**On behalf of the Board:**

*'Gregory Smith'*  
**Gregory Smith**

*'Philip O'Quigley'*  
**Philip O'Quigley**

27 April 2023

**Falcon Oil & Gas Ltd.**  
**Consolidated Statement of Financial Position**

	Notes	At 31 December 2022 \$'000	At 31 December 2021 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	11	<b>42,977</b>	40,197
Property, plant and equipment		7	13
Trade and other receivables		20	22
Restricted cash	13	<b>2,090</b>	2,239
		<b>45,094</b>	42,471
<b>Current assets</b>			
Cash and cash equivalents	12	<b>16,785</b>	8,894
Trade and other receivables	14	79	74
		<b>16,864</b>	8,968
<b>Total assets</b>		<b>61,958</b>	51,439
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	15	<b>402,120</b>	392,170
Contributed surplus		47,063	46,254
Accumulated deficit		<b>(403,860)</b>	(399,866)
		<b>45,323</b>	38,558
<b>Non-controlling interests</b>		<b>701</b>	698
<b>Total equity</b>		<b>46,024</b>	39,256
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Decommissioning provision	21	<b>15,602</b>	11,775
		<b>15,602</b>	11,775
<b>Current liabilities</b>			
Accounts payable and accrued expenses	22	<b>332</b>	408
		<b>332</b>	408
<b>Total liabilities</b>		<b>15,934</b>	12,183
<b>Total equity and liabilities</b>		<b>61,958</b>	51,439

The notes on pages 11 to 32 are an integral part of these consolidated financial statements.

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

		Share capital	Contributed surplus	Accumulated deficit	Equity interests of the parent	Non-Controlling interests ("NCI")	Total equity
	Notes	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2021		392,170	45,075	(395,173)	<b>42,072</b>	701	<b>42,773</b>
Loss and total comprehensive loss for the year		-	-	(4,693)	<b>(4,693)</b>	(3)	<b>(4,696)</b>
<i>Contributions by and distributions to the owners:</i>							
Share based compensation	17	-	1,179	-	<b>1,179</b>	-	<b>1,179</b>
At 31 December 2021		392,170	46,254	(399,866)	<b>38,558</b>	698	<b>39,256</b>
Loss and total comprehensive loss for the year		-	-	(3,994)	<b>(3,994)</b>	3	<b>(3,991)</b>
<i>Contributions by and distributions to the owners:</i>							
Share based compensation	17	-	809	-	<b>809</b>	-	<b>809</b>
Private Placement	15	9,950	-	-	<b>9,950</b>	-	<b>9,950</b>
<i>Sub-total</i>		<u>9,950</u>	<u>809</u>	<u>-</u>	<b>10,759</b>	<u>-</u>	<b>10,759</b>
<b>At 31 December 2022</b>		<b>402,120</b>	<b>47,063</b>	<b>(403,860)</b>	<b>45,323</b>	<b>701</b>	<b>46,024</b>

The notes on pages 11 to 32 are an integral part of these consolidated financial statements.

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

	Notes	Year Ended 31 December	
		<b>2022</b> \$'000	<b>2021</b> \$'000
<b>Cash flows from operating activities</b>			
Net loss for the year		(3,991)	(4,696)
Adjustments for:			
Share based compensation	17	<b>809</b>	1,179
Depreciation		5	4
Net finance loss	6,14	22	242
Foreign exchange loss		138	238
Transfer of Canadian working interests		-	(28)
Decommissioning provision	21	<b>825</b>	991
Change in non-cash working capital			
(Acrease) / decrease in trade and other receivables		(5)	44
(Dcrease) / increase in accounts payable		(64)	67
<b>Net cash used in operating activities</b>		<b>(2,261)</b>	(1,959)
<b>Cash flows from investing activities</b>			
Interest received	6,14	33	7
Exploration and evaluation assets additions	11	(88)	(163)
Granting of ORRI to Sheffield Holdings LP	18	<b>6,000</b>	-
Exercising of TOG Group call option	18	(6,000)	-
<b>Property plant and equipment</b>		-	(13)
<b>Net cash used in investing activities</b>		<b>(55)</b>	(169)
<b>Cash flows from financing activities</b>			
Proceeds from private placement	15	<b>10,000</b>	-
Costs related to private placement	15	(50)	-
<b>Net cash generated from financing activities</b>		<b>9,950</b>	-
Change in cash and cash equivalents		7,634	(2,128)
Effect of exchange rates on cash & cash equivalents		257	(14)
Cash and cash equivalents at beginning of year		8,894	11,036
<b>Cash and cash equivalents at end of year</b>	12	<b>16,785</b>	8,894

The notes on pages 11 to 32 are an integral part of these consolidated financial statements.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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## **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 and South Africa. The carrying value at 31 December 2022 of the Company's interest in Australia is \$43 million (2021: \$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: 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 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"). Mako Energy Corporation, a Delaware company and Falcon Oil & Gas USA Inc., a Colorado company, former wholly owned subsidiaries of Falcon, were liquidated in 2021.

## **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**

Prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

As at 31 December 2022 the Group had US\$16.8m of cash and cash equivalents, which is sufficient to cover ongoing operating costs for the next 12 months from the date of the approval of the financial statements. Falcon Australia holds a 22.5% participating interest ("PI") in the Exploration Permits situated in the Beetaloo Sub-Basin, Northern Territory, Australia which has a gross cost cap of A\$263.8 million, with costs above this cost cap to be borne by the joint venture partners in proportion to their respective PI. With Origin Energy B2 Pty Ltd.'s ("Origin") divestment announced on 19 September 2022, the cost caps and obligations transferred to Tamboran (B1) Pty Limited ("Tamboran B1"). As part of the transaction agreed and the binding Letter of Intent ("LOI") executed and announced on 11 October 2022, Tamboran B1 granted Falcon Australia an additional carry beyond Stage 3 of A\$30 million and terms were agreed on limited proration units for sole risk operations to a maximum of 6,400 acres per well, providing Falcon Australia with participation optionality on the drilling of future wells. Falcon also completed an equity raise of US\$10million in 2022.

The remaining cost cap coupled with the cash on hand are sufficient to cover estimated committed costs under Stage 3 of the work programme and other general operating costs for twelve months from the date of the approval of the financial statements. While Falcon has participation optionality in future drilling activities based on the executed LOI, participation in drilling activities beyond Stage 3 requires further funding.

Management and those charged with governance are confident that further funding required can be raised through either an equity raise or debt funding. As at the date of the approval of these financial statements 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, management and those charged with governance has a reasonable expectation that the Group will have adequate resources to continue in

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**2. Accounting policies (continued)**

operational existence for a period of at least twelve months from the date of approval of these financial statements. 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.

**Standards, Interpretations and Amendments to Published Standards**

The following were adopted on 1 January 2022 but have no material impact on the financial statements:

<b>New Standards, Interpretations and Amendments effective for periods beginning 1 January 2022</b>	<b>Effective date</b>
IFRS 3 amendments updating a reference to the Conceptual Framework	1 January 2022
Annual Improvements to IFRS: 2018-2020 cycle	1 January 2022
IAS 37 amendments regarding onerous contracts	1 January 2022
IAS 16 amendments regarding proceeds before intended use	1 January 2022

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 inconsistent with the Group's current accounting policies.

<b>New Standards, Interpretations and Amendments applicable to future periods</b>	<b>Effective date</b>
IFRS 17 Insurance Contracts	1 January 2023
Amendments to IAS 1 Disclosure of Accounting policies	1 January 2023
Amendments to IAS 8 Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS 1 Classification of Liabilities as Current	1 January 2023
Amendments to IFRS 16 Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1 Non-current Liabilities with Covenants	1 January 2024

**Historical cost convention**

The consolidated financial statements have been prepared on the historical cost basis with the exception 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.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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## **2. Accounting policies (continued)**

### **Basis of consolidation**

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

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

All of Falcon's subsidiaries are wholly owned except for Falcon Australia of which 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 2018, the farm-out agreement was amended deeming Stage 1 of the exploration and appraisal programme complete and Stage 2 commenced with a A\$15 million increase to the Stage 2 capped expenditure. There were 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 total of A\$263.8 million. Costs in excess of the cost cap of A\$263.8 million will be funded in proportion to the participating interest of the joint venture partners.

On 19 September 2022 Origin announced the divestment of its 77.5% interest in the exploration permits. On 11 October 2022 Falcon announced that Falcon Australia had entered into a binding LOI with Tamboran B1, a joint venture between Daly Water Energy, LP and Tamboran Resources Limited, pursuant to which the parties have agreed to amend the terms of the Joint Operating Agreement ("JOA") and the Farm-In Agreement ("FIA"), each dated 2 May 2014 (as amended), entered into with Origin in respect of Falcon Australia's interest in the Beetaloo Sub-Basin exploration permits. The key terms of the LOI provide for:

- Falcon Australia to earn an additional carry on future well costs of up to A\$30m (US\$18.9m equivalent) (A\$6.75m (US\$4.3m equivalent) net to Falcon Australia);
- the introduction of limited proration units on sole risk operations to a maximum of 6,400 acres per well, providing Falcon Australia with participation optionality on the drilling of future wells;
- the sharing of well data on any sole risked wells, providing Falcon Australia with visibility on crucial data and analysis even where it elects not to participate; and

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**2. Accounting policies (continued)**

- pre-emptive rights in relation to Origin's divestment of its 77.5% interest in the Beetaloo Sub-basin announced on 19 September 2022 are not to be exercised by Falcon Australia and all pre-emptive and similar rights are to be removed from the JOA, providing Falcon Australia with greater flexibility for realisation of licence interests.

**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 (e.g., 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.

**Overriding Royalty Interest**

A financial liability will arise in relation to the Overriding Royalty Interests on the Group's exploration licence when an obligation will exist, which would occur when production commences. For further details please refer to note 18

**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.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**2. Accounting policies (continued)**

**Accumulated deficit**

Accumulated deficit is all other net losses and transactions not recognised anywhere else.

**Equity interests of the parent**

This equates to the total for share capital, contributed surplus and accumulated deficit, but does not include NCI.

**Total equity**

This equates to the total for share capital, contributed surplus and accumulated deficit and NCI.

**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 ("CGUs"), which consist of the Group's Australian exploration project which is pending the determination of proven or probable reserves, for details see page 24.

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.

Costs incurred for assets impaired and deemed to have no future commercial viability are expensed through the statement of operations and comprehensive income/loss.

*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 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.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**2. Accounting policies (continued)**

*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; and
- 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
- 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.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**2. Accounting policies (continued)**

**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 and increases / decreases due to changes in the estimated future cash flows are recorded through the statement of operations and comprehensive income/loss given the asset is impaired. 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"), details of which are discussed on page 20. The CODM is considered to be the Board of Directors.

**Finance income and expenses**

Finance expense comprises accretion of the discount on provisions.

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.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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## **2. Accounting policies (continued)**

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 \$43 million at 31 December 2022 (2021: \$40.2 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.

Renewal applications for exploration permits 76 and 117 were submitted in September 2022 ahead of the end of the five year term which expired in December 2022, a further renewal application for exploration permit 98 was submitted in March 2023 ahead of the current five year term expiring in June 2023. These are currently under review with the Northern Territory government, with management expecting the approval of the applications in due course.

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.

#### ***(ii) Going Concern***

As at the date of the approval of these financial statements, funding beyond Stage 3 will be required, however no such further funding has been raised and there can be no certainty that sufficient funds can be raised if required. Having given due consideration to the cash requirements of the Group, management and those charged with governance have 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 and are confident that further funding required can be raised through either an equity raise or debt funding. 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.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**3. Critical accounting estimates and judgments (continued)**

***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 21 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 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, Australian, 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 2022**

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**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 no producing 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
<b>Year ended 31 December 2022</b>					
Revenue	-	-	-	-	-
<b>Net loss <sup>(i)</sup></b>	<b>(242)</b>	<b>(67)</b>	<b>(1,633)</b>	<b>(2,052)</b>	<b>(3,994)</b>

**At 31 December 2022**

	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
<b>Non-current assets <sup>(ii)</sup></b>					
	42,977	-	2,058	39	45,074

**Year ended 31 December 2021**

	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
Revenue	-	-	-	-	-
<b>Net loss <sup>(i)</sup></b>	<b>(410)</b>	<b>(57)</b>	<b>(1,800)</b>	<b>(2,426)</b>	<b>(4,693)</b>

**At 31 December 2021**

	Australia \$'000	South Africa \$'000	Hungary \$'000	Other \$'000	Total \$'000
<b>Non-current assets <sup>(ii)</sup></b>	<b>40,197</b>	<b>-</b>	<b>2,239</b>	<b>13</b>	<b>42,449</b>

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

(ii) Non-current assets consist of exploration and evaluation assets, restricted cash and property, plant and equipment.

**6. Finance income and expense**

	Notes	For the year ended 31 December 2022 \$'000	2021 \$'000
<b>Finance income</b>			
Interest income on bank deposits	14	43	7
Net foreign exchange gain		255	-
		298	7
<b>Finance expense</b>			
Net foreign exchange loss		-	(24)
Accretion of decommissioning provisions	21	(310)	(225)
		(310)	(249)
<b>Net finance expense</b>		<b>(12)</b>	<b>(242)</b>

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**7. Net loss per share**

Basic and diluted loss per share is calculated as follows:

	For the year ended 31 December	
	2022 \$'000	2021 \$'000
Loss attributable to equity holders of the company	(3,994)	(4,693)
Weighted average number of common shares in issue - (thousands)	1,028,080	981,847
Loss / diluted loss per share	(\$0.004)	(\$0.005)

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 26% (2021: 28%) to the loss before tax to the actual tax result is as follows:

	For the year ended 31 December	
	2022 \$'000	2021 \$'000
Loss before tax	(3,991)	(4,696)
Computed income tax benefit	(1,038)	(1,315)
Decrease in income taxes resulting from:		
Effect of foreign income tax rates	254	256
Non-deductible share-based compensation	210	330
Other	179	37
Change in deferred tax benefits not recognised	395	692
	-	-

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

	At 31 December	
	2022 \$'000	2021 \$'000
Trading losses	145,742	152,250
E&E assets and property, plant and equipment	114,679	80,043
Other	1,009	1,086
Allowable capital losses	122,330	129,653
	383,760	363,033

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**8. Income taxes (continued)**

The Group's accumulated trading losses carried forward as at 31 December 2022 to reduce future years' taxable income are as follows:

	2022 \$'000	2022 Expiration	2021 \$'000	2021 Expiration
Canada	31,745	2026 to 2042	32,906	2026 to 2041
Hungary <sup>(i)</sup>	44,700	2022 to 2030	51,547	2022 to 2030
Australia	58,236	No expiration	58,027	No expiration
Other	11,061	No expiration	9,770	No expiration
	<b>145,742</b>		<b>152,250</b>	

<sup>(i)</sup> A change in Hungarian corporate income tax regulations in 2019, allows tax losses accumulated between 2004 and 2014 to be utilized up to and including the year ended 2030. Losses generated from 2015 onwards are available for utilization for 5 tax years following the subject tax year.

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**

Executive directors' remuneration is analysed as follows:

Executive director <sup>(i)</sup>	Year	Salary	Other	Bonus	Share based payment <sup>(ii)</sup>
		\$'000	\$'000	\$'000	\$'000
Philip O'Quigley	2022	479	4	162	281
	2021	540	5	-	571
Anne Flynn <sup>(iii)</sup>	2022	211	24	81	251
	2021	220	24	-	162

<sup>(i)</sup> Executive director's remuneration is fixed by the Compensation Committee of the Board.

<sup>(ii)</sup> Share based payments represent the non-cash expense attributable to the relevant options held by each Director. For further details on share-based payments, refer to note 17.

<sup>(iii)</sup> Anne Flynn was appointed as an executive director on 2 May 2022.

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**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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

**Non - executive directors**

	Director fees <sup>(i)</sup>		Share - based payments <sup>(ii)</sup>	
	2022 \$'000	2021 \$'000	2022 \$'000	2021 \$'000
Joe Nally	57	15	76	75
Gregory Smith	48	42	28	57
Tom Layman <sup>(iii)</sup>	46	-	96	-
JoAchim Conrad <sup>(iii)</sup>	12	44	7	57
Daryl Gilbert <sup>(iii)</sup>	15	42	7	57
Maxim Mayorets <sup>(iii)</sup>	7	42	4	57
	<b>185</b>	<b>185</b>	<b>218</b>	<b>303</b>

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

**(ii)** Share based payments represent the non-cash expense attributable to the relevant options held by each Director. For further details on share-based payments refer to note 17.

**(iii)** Maxim Mayorets resigned as a non-executive director on 1 March 2022. JoAchim Conrad and Daryl Gilbert retired as non-executive directors on 2 May 2022, Tom Layman was appointed on 2 May 2022.

**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	
	2022 \$'000	2021 \$'000
Directors' fees	185	185
Salaries and other emoluments	940	767
Share based compensation	749	1,036
Defined contribution pension plans	21	22
	<b>1,895</b>	<b>2,010</b>

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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**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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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 for employees and contractors which are included in both exploration and evaluation expenses and general and administrative expenses and share based compensation. The following is a summary of total compensation:

	For the year ended 31 December	
	2022 \$'000	2021 \$'000
Exploration and evaluation expenses	27	30
General and administrative expenses	1,416	1,192
Share based compensation	809	1,179
	<b>2,252</b>	<b>2,401</b>

**(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	
	2022 \$'000	2021 \$'000
Audit of the Group's consolidated financial statements	91	84
Audit of the Group's subsidiaries pursuant to legislation	10	5
Non-audit fees: Tax fees	46	37
	<b>147</b>	<b>126</b>

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**

	Note	Australia \$'000	Total \$'000
At 1 January 2022		40,197	40,197
Additions		86	86
Granting an ORRI to Sheffield Holdings	18	(6,000)	(6,000)
Exercising TOG Group call option	18	6,000	6,000
Decommissioning provision	21	2,694	2,694
<b>At 31 December 2022</b>		<b>42,977</b>	<b>42,977</b>

	Australia \$'000	Total \$'000
At 1 January 2021	40,444	40,444
Additions	13	13
Adjustment	(260)	(260)
<b>At 31 December 2021</b>	<b>40,197</b>	<b>40,197</b>

Exploration and evaluation assets consist of the Group's Australian exploration project which is pending the determination of proven or probable reserves.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**12. Cash and cash equivalents**

Cash and cash equivalents include 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.

	At 31 December	
	2022 \$'000	2021 \$'000
Cash	16,785	8,894
	<b>16,785</b>	<b>8,894</b>

**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, with movements year on year related to foreign exchange revaluations.

	At 31 December	
	2022 \$'000	2021 \$'000
Restricted cash	2,090	2,239
	<b>2,090</b>	<b>2,239</b>

**14. Trade and other receivables**

	At 31 December	
	2022 \$'000	2021 \$'000
Other receivables	21	19
Prepayments	48	55
Interest accrued on deposit accounts	10	-
	<b>79</b>	<b>74</b>

**15. Share capital**

As at 31 December 2022 and 2021, 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;

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**15. Share capital (continued)**

- 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; and
- 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.

As at 31 December 2022 and 31 December 2021, the Company was authorised to issue an unlimited number of common shares, without par value.

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

	Number of shares	Share capital \$'000
At 1 January 2021	981,847,425	392,170
At 31 December 2021	<b>981,847,425</b>	<b>392,170</b>
Private placement – April 2022	62,500,000	10,000
Private placement – April 2022 - expenses	-	(50)
	<b>62,500,000</b>	<b>9,950</b>
<b>At 31 December 2022</b>	<b>1,044,347,425</b>	<b>402,120</b>

On 08 April 2022 Falcon announced that, following the approval of the TSX Venture Exchange, it had issued a total of 62,500,000 Common Shares at a price of CDN\$0.20 per share to Sheffield Holdings LP for gross proceeds of US\$10 million pursuant to the private placement announced on 31 March 2022.

**16. General and administrative expenses**

Notes	For the year ended 31 December	
	2022 \$'000	2021 \$'000
Accounting and audit fees	(158)	(158)
Consulting fees	(44)	(49)
Legal fees	(29)	(44)
Investor relations	(215)	(214)
Office and administrative costs	(167)	(223)
Payroll and related costs	(1,169)	(937)
Directors' fees- Group and subsidiaries	(212)	(215)
Travel and promotion	(62)	(12)
Shared based compensation	17	(809)
	<b>(2,865)</b>	<b>(3,031)</b>

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**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. Volatility is calculated based on the standard deviation of the share price movement over the expected life of the options granted. 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 \$809,000 share-based expense during the year ended 31 December 2022 (2021: \$1,179,000).

On 19 February 2021 Falcon announced it granted incentive stock options ("Options") on 18 February 2021 to purchase an aggregate of 38,000,000 common shares of Falcon to a number of recipients, including directors and officers under the stock option plan approved at Falcon's annual shareholders meeting held on 10 December 2020. The Options were granted at an exercise price of £0.08 (equivalent to CDN\$0.14) and £0.12 (equivalent to CDN\$0.21) respectively. The Options have an expiry date of 17 February 2026

On 13 September 2021 Falcon announced it granted Options on 10 September 2021 to the newly appointed chairman to purchase an aggregate of 3,000,000 common shares of Falcon. The Options were granted at an exercise price of £0.10 (equivalent to CDN\$0.18). The Options have an expiry date of 9 September 2026.

On 7 June 2022 Falcon announced it granted Options on 6 June 2022 to directors and officers to purchase an aggregate of 16,250,000 common shares of Falcon. Options were granted at an exercise price of £0.15 (equivalent to CDN\$0.24). The Options have an expiry date of 5 June 2027.

On 30 November 2022 Falcon announced it granted Options on 29 November to Tom Layman (Non-Executive Director) to purchase 2,500,000 common shares of Falcon at an exercise price of £0.15 (equivalent to CDN\$0.24). The Options have an expiry date of 28 November 2027.

All Options granted in 2021 and 2022 have a vesting schedule allowing one third of the Options to vest immediately at the date of grant with an additional one third vesting on each subsequent anniversary with the Options fully vested on 18 February 2023, 10 September 2023, 6 June 2024 and 29 November 2024 respectively.

A summary of the Group's stock option plan as of 31 December 2022 and 31 December 2021 and changes during the periods then ended, is presented below:

The exercise prices of the outstanding Options are as follows:

	<b>Year ended 31 December 2022</b>		<b>Year ended 31 December 2021</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at beginning of period	<b>47,000,000</b>	<b>£0.10</b>	35,333,334	CDN\$0.13
Expired	(6,000,000)	CDN\$0.20	(29,333,334)	CDN\$0.11
Granted	-	-	21,500,000	£0.08
Granted	-	-	16,500,000	£0.12
Granted	-	-	3,000,000	£0.10
Granted	<b>18,750,000</b>	<b>£0.15</b>	-	-
Outstanding at end of period	<b>59,750,000</b>	<b>£0.11</b>	47,000,000	£0.10
Exercisable at end of period	<b>33,583,333</b>	<b>£0.11</b>	19,666,667	£0.10

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**17. Share based compensation (continued)**

The exercise prices of the outstanding Options are as follows:

Date of grant	Options	Exercise price	Date of Expiry	Weighted average contractual life remaining (years)
18 February 2021	21,500,000	£0.08	17 February 2026	3.13
18 February 2021	16,500,000	£0.12	17 February 2026	3.13
10 September 2021	3,000,000	£0.10	9 September 2026	3.69
6 June 2022	16,250,000	£0.15	5 June 2027	4.43
29 November 2022	2,500,000	£0.15	28 November 2027	4.91
	<b>59,750,000</b>	<b>£0.11</b>		

The fair value of 2022 Options granted at £0.15 and the 2021 Options granted at £0.08, £0.12 and £0.10 respectively were estimated using a Black Scholes model with the following inputs:

Date of Grant	18 February 2021	18 February 2021	10 September 2021	6 June 2022	29 November 2022
Fair value as at grant date	£0.03	£0.02	£0.04	£0.04	£0.02
Share price as at grant date	£0.07	£0.07	£0.08	£0.09	£0.06
Exercise price	£0.08	£0.12	£0.10	£0.15	£0.15
Volatility	61.399%	61.399%	63.578%	67.806%	69.732%
Expected option life	4.12 years	4.12 years	4.14 years	4.05 years	4.09 years
Dividends	Nil	Nil	Nil	Nil	Nil
Risk - free interest rate	0.485%	0.485%	0.606%	1.997%	3.079%

**18. Overriding royalties**

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.

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 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 assumed 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, would reduce from US\$7.5million to US\$5.625 million, in line with the reduced PI.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**18. Overriding royalties (continued)**

On **7 July 2020** Falcon Australia agreed to a further extension of the call option up to and including 30 April 2022 (“**Additional Extension**”), to acquire its 22.5% portion of the 2% ORRI from the TOG Group. Following confirmation of registration of the Additional Extension from the Northern Territory government Falcon Australia paid \$150,000 to the TOG Group for granting the Additional Extension, with the cost of exercising the call option increasing from \$5.625 million to \$6 million.

On **31 March 2022** it was announced that Falcon Australia had agreed to grant Sheffield Holdings LP (“**Sheffield**”) a 2% ORRI over Falcon Australia’s 22.5% working interest in the in return for a cash payment of US\$6 million. The 2% ORRI granted to Sheffield will be calculated on equal economic terms as the TOG Group with the cash proceeds of US\$6 million to be used to exercise Falcon Australia’s call option to reduce the existing ORRI with the TOG group from 3% to 1%. Both transactions took place in April 2022. These changes to the ORRI’s were submitted to the Northern Territory Government, Australia for registration and have been approved.

No liability has been recognized with respect to the overriding royalties given the associated exploration permits do not have commercially producing wells and have not generated revenue to date.

**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 2022 and 31 December 2021, 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.

**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 2022 and 2021. 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 2022		31 December 2021	
	Carrying value \$'000	Fair value \$'000	Carrying value \$'000	Fair value \$'000
<b>Financial assets:</b>				
Cash and cash equivalents including				
restricted cash	18,875	18,875	11,133	11,133
Accounts receivable	85	85	78	78
<b>Financial Liabilities:</b>				
<i>Other financial liabilities</i>				
Accounts payable and accrued expenses	332	332	408	408

**(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.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**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. The Group notes the most recent credit ratings per Fitch for its main financial institutions as follows; National Australia Bank Limited 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:

<b>31 December 2022</b>	<b>Carrying amount \$'000</b>	<b>Contractual cash flows \$'000</b>	<b>One year or less \$'000</b>	<b>One to three years \$'000</b>
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*Non-derivative financial liabilities*

Accounts payable and accrued expenses	332	332	332	-
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<b>31 December 2021</b>	<b>Carrying amount \$'000</b>	<b>Contractual cash flows \$'000</b>	<b>One year or less \$'000</b>	<b>One to three years \$'000</b>
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*Non-derivative financial liabilities*

Accounts payable and accrued expenses	408	408	408	-
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*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 Group'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 Group 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 2022**

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**21. Decommissioning Provision**

A reconciliation of the decommissioning provision for the years ended 31 December 2022 and 2021 is provided below:

	2022 \$'000	2021 \$'000
Balance as at beginning of year	11,775	10,563
Revision to Hungarian provision	825	991
Adjustment for Beetaloo working interests	2,694	-
Adjustment for Canadian working interests	(2)	(4)
Accretion	310	225
<b>Balance as at end of year – non-current</b>	<b>15,602</b>	<b>11,775</b>

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 for its Hungarian well interests to be \$12.9 million as at 31 December 2022 (2021: \$11.8 million) based on an undiscounted total future liability of \$14.4 million (2021: \$13.2 million). These payments are expected to be made in 5 years. The discount factor, being the risk-free rate related to the liability, was 2.33% as at 31 December 2022 (2021: 2.003%). The inflation factor related to the liability, was 2.52% as at 31 December 2022 (2021: 2.92%). A 1% increase / (decrease) in the discount rate to 3.33% / 1.33% will (decrease) / increase the provision by (\$610,892) / \$647,802.

The estimated net present value of the decommissioning provision for its Australian Beetaloo well interests is \$2.7 million as at 31 December 2022 (2021: nil) based on an undiscounted total future liability of \$3.4 million (2021: nil). These payments are expected to be made between 5-30 years. The discount factors, being the risk-free rate related to the liability, were 3.70% and 4.34% respectively as at 31 December 2022. The inflation factor related to the liability, was 2.50% as at 31 December 2022. A 1% increase / (decrease) in the discount rate will (decrease) / increase the provision by (\$389,935) / \$307,597. Recognised for year ended 31 December 2022 due to the consumption of the cost cap of \$263.8 million in 2023.

**22. Accounts payable and accrued expenses**

	At 31 December	
	2022 \$'000	2021 \$'000
<b>Current</b>		
Accounts payable	84	93
Accrued expenses	248	315
	<b>332</b>	<b>408</b>

**23. Related party transactions**

***Key management personnel***

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

There were no related party transactions during the period.

**Falcon Oil & Gas Ltd.**  
**Notes to the Consolidated Financial Statements**  
**Year Ended 31 December 2022**

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**24. Commitments and contingencies**

***Work program commitments***

*Australia - Beetaloo Sub-Basin, Northern Territory, Australia*

The Group planned a drilling programme which commenced in 2015 with its farm-out partners.

Originally the Group indicated that it expected the work to be undertaken between 2016 and 2018, however the introduction of a moratorium on hydraulic fracturing delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work recommenced in 2019, details of current operations are included in the Management's Discussion & Analysis document for the three and twelve months ended 31 December 2022.

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 participating interest.

On 7 April 2020 it was announced that Falcon Australia had agreed to farm down 7.5% of its PI in the Exploration Permits, such that following the transactions, Falcon Australia holds a 22.5% PI. 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 were combined and increased by A\$150.5 million to A\$263.8 million. Costs in excess of the cost cap of A\$263.8 million will be funded in proportion to the participating interest of the joint venture partners. With Origin's divestment announced on 19 September 2022, the cost caps and obligations transfer to Tamboran B1. Furthermore, as announced on 11 October 2022, Falcon Australia will earn an additional carry on future well costs up to A\$30m and the introduction of limited proration units on sole risk operations provides optionality to Falcon Australia on future wells drilled.

*South Africa - Karoo Basin, South Africa*

On granting of an approved exploration right in South Africa, the Group will be required to make a payment to the South African government of approximately \$0.7 million. Management does not foresee this payment falling due within the next 12 months.

*Hungary - Makó Trough, Hungary*

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

**25. Subsequent Events**

Falcon announced the successful completion of a 25-stage stimulation programme at the Amungee NW-2H well. 30 day initial production (IP30) flow rates are expected during the second quarter of 2023.

Other than the above there are no subsequent events to note.

**26. Approval of financial statements**

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 27 April 2023.

**[End of document]**