



**Falcon Oil & Gas Ltd.**

Interim Condensed Consolidated Financial Statements  
Three Months Ended 31 March 2020 and 2019

(Presented in U.S. Dollars)

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28 May 2020

To the shareholders of Falcon Oil & Gas Ltd.

### **Notice of No Auditor Review**

The accompanying unaudited interim condensed consolidated financial statements as at and for the three months ended 31 March 2020, have been prepared by the management of the Company and approved by the Audit Committee.

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

**Falcon Oil & Gas Ltd.**  
**Interim Condensed Consolidated Financial Statements (Unaudited)**  
**For the Three Months Ended 31 March 2020 and 2019**

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**Falcon Oil & Gas Ltd.****Interim Condensed Consolidated Statement of Operations and Comprehensive Loss**

(Unaudited)

		Three months ended 31 March 2020 \$'000	Three months ended 31 March 2019 \$'000
	Notes		
<b>Revenue</b>			
Oil and natural gas revenue	3	1	2
		1	2
<b>Expenses</b>			
Exploration and evaluation expenses		(38)	(41)
Production and operating expenses		(2)	(3)
General and administrative expenses		(403)	(459)
Share based compensation	9	-	(12)
Foreign exchange loss		(28)	(51)
		(471)	(566)
<b>Results from operating activities</b>			
		(470)	(564)
Fair value gain / (loss) - warrant	12	110	(467)
Finance income	4	14	43
Finance expense	4	(1,094)	(57)
Net finance expense		(1,080)	(14)
<b>Loss and comprehensive loss for the period</b>		<b>(1,440)</b>	<b>(1,045)</b>
Loss and comprehensive loss attributable to:			
Equity holders of the company		(1,421)	(1,044)
Non-controlling interests		(19)	(1)
<b>Loss and comprehensive loss for the period</b>		<b>(1,440)</b>	<b>(1,045)</b>
Loss per share attributable to equity holders of the company:			
Basic and diluted	5	(\$0.001)	(\$0.001)

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

**Falcon Oil & Gas Ltd.**  
**Interim Condensed Consolidated Statement of Financial Position**  
(Unaudited)

		At 31 March 2020 \$'000	At 31 December 2019 \$'000
	Notes		
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	6	40,282	40,246
Property, plant and equipment		1	1
Trade and other receivables		28	30
Restricted cash	7	2,176	2,241
		<b>42,487</b>	<b>42,518</b>
<b>Current assets</b>			
Cash and cash equivalents	8	11,540	13,066
Trade and other receivables		130	141
		<b>11,670</b>	<b>13,207</b>
<b>Total assets</b>		<b>54,157</b>	<b>55,725</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		392,170	392,170
Contributed surplus		45,075	45,075
Retained deficit		(394,764)	(393,343)
		<b>42,481</b>	<b>43,902</b>
<b>Non-controlling interests</b>		<b>681</b>	<b>700</b>
<b>Total equity</b>		<b>43,162</b>	<b>44,602</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Decommissioning provision	13	10,385	10,331
		<b>10,385</b>	<b>10,331</b>
<b>Current liabilities</b>			
Accounts payable and accrued expenses	14	610	682
Derivative financial liabilities	12	-	110
		<b>610</b>	<b>792</b>
<b>Total liabilities</b>		<b>10,995</b>	<b>11,123</b>
<b>Total equity and liabilities</b>		<b>54,157</b>	<b>55,725</b>

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

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

	Notes	Share capital \$'000	Contributed surplus \$'000	Retained deficit \$'000	Equity interests of the parent \$'000	Non-Controlling interests ("NCI") \$'000	Total equity \$'000
At 1 January 2019		383,737	45,063	(391,604)	37,196	700	37,896
Share based compensation	9	-	12	-	12	-	12
Loss and total comprehensive loss for the period		-	-	(1,044)	(1,044)	(1)	(1,045)
<b>At 31 March 2019</b>		<b>383,737</b>	<b>45,075</b>	<b>(392,648)</b>	<b>36,164</b>	<b>699</b>	<b>36,863</b>
At 1 January 2020		392,170	45,075	(393,343)	<b>43,902</b>	700	<b>44,602</b>
Loss and total comprehensive loss for the period		-	-	(1,421)	<b>(1,421)</b>	(19)	<b>(1,440)</b>
<b>At 31 March 2020</b>		<b>392,170</b>	<b>45,075</b>	<b>(394,764)</b>	<b>42,481</b>	<b>681</b>	<b>43,162</b>

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

**Falcon Oil & Gas Ltd.**  
**Interim Condensed Consolidated Statement of Cash Flows**  
(Unaudited)

		Three months ended 31 March	
	Notes	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Net loss for the period		(1,440)	(1,045)
Adjustments for:			
Share based compensation	9	-	12
Fair value (gain) / loss - warrant	12,15	(110)	467
Net finance expense	4	1,080	14
Effect of exchange rates on operating activities		28	(51)
Change in non-cash working capital:			
Decrease / (increase) in trade and other receivables		13	(108)
(Decrease) / increase in accounts payable and accrued expenses		(42)	140
<b>Net cash used in operating activities</b>		<b>(471)</b>	<b>(571)</b>
<b>Cash flows from investing activities</b>			
Interest received		14	35
Exploration and evaluation assets		(36)	(2)
<b>Net cash (used in) / generated by investing activities</b>		<b>(22)</b>	<b>33</b>
Change in cash and cash equivalents		(493)	(538)
Effect of exchange rates on cash & cash equivalents		(1,033)	9
Cash and cash equivalents at beginning of period		13,066	6,967
<b>Cash and cash equivalents at end of period</b>	8	<b>11,540</b>	<b>6,438</b>

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

## Falcon Oil & Gas Ltd.

### Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) For the Three Months Ended 31 March 2020 and 2019

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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, South Africa and Canada. The carrying value at 31 March 2020 of the Company’s interest in Australia is \$40.3 million, while the Hungarian asset is nil due to a determination in 2014 that the estimated recoverable amount was insufficient to cover the carrying value of the asset. For the South African interest, costs associated with the technical cooperation permits are expensed as incurred.

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

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

#### 2. Accounting policies

##### Basis of preparation and going concern

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

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

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

Having given due consideration to the cash requirements of the Group, the Board of Directors (“**the Board**”) has a reasonable expectation that the Group will have adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements. 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.

**Falcon Oil & Gas Ltd.****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
For the Three Months Ended 31 March 2020 and 2019****2. Accounting policies (continued)**

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

**3. Segment information**

Based on internal reporting information, it was determined that there is one reportable segment. All of the Group's operations are in the petroleum and natural gas industry with its principal business activity being in the 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
Three months ended 31 March 2020					
Revenue	-	-	-	1	1
Net loss <sup>(i)</sup>	(1,093)	(13)	(210)	(105)	(1,421)
At 31 March 2020					
Capital assets <sup>(ii)</sup>	40,282	-	-	1	40,283
Three months ended 31 March 2019					
Revenue	-	-	-	2	2
Net loss <sup>(i)</sup>	(75)	(34)	(174)	(761)	(1,044)
At 31 March 2019					
Capital assets <sup>(ii)</sup>	39,707	-	-	2	39,709

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

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

**Falcon Oil & Gas Ltd.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
For the Three Months Ended 31 March 2020 and 2019**

**4. Finance income and expense**

	Notes	Three months ended 31 March	
		2020 \$'000	2019 \$'000
<b>Finance income</b>			
Interest income on bank deposits		14	35
Net foreign exchange gain		-	8
		14	43
<b>Finance expense</b>			
Accretion of decommissioning provisions	13	(58)	(57)
Net foreign exchange loss		(1,036)	-
		(1,094)	(57)
Net finance expense		(1,080)	(14)

**5. Loss per share**

Basic and diluted loss per share is calculated as follows:

	For the three months ended 31 March	
	2020 \$'000	2019 \$'000
Loss attributable to equity holders of the company	(1,421)	(1,044)
Weighted average number of common shares in issue - (thousands)	981,847	931,304
Loss / diluted loss per share	(\$0.001)	(\$0.001)

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

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

	Australia \$'000	Total \$'000
At 1 January 2020	40,246	40,246
Additions	36	36
<b>At 31 March 2020</b>	<b>40,282</b>	<b>40,282</b>

	Australia \$'000	Total \$'000
At 1 January 2019	39,705	39,705
Additions	541	541
At 31 December 2019	40,246	40,246

E&E assets consist of the Group's Australian exploration project which is pending the determination of proven or probable reserves. For detailed discussion on E&E assets, please refer to the Management's Discussion & Analysis document for the three months ended 31 March 2020 on pages 6-15.

**Falcon Oil & Gas Ltd.**  
**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**  
**For the Three Months Ended 31 March 2020 and 2019**

**7. Restricted cash**

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

	<b>31 March 2020 \$'000</b>	31 December 2019 \$'000
Restricted cash	<b>2,176</b>	2,241
	<b>2,176</b>	2,241

**8. Cash and cash equivalents**

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

	<b>31 March 2020 \$'000</b>	31 December 2019 \$'000
Cash and cash equivalents	<b>11,540</b>	13,066
	<b>11,540</b>	13,066

**9. Share based compensation**

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

Any consideration paid on the exercise of these options together with the related contributed surplus associated with the exercised options is recorded as share capital. The Group did not incur a share-based expense during the period ended 31 March 2020 (2019: \$12,000).

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

There were no share options exercised during 2019 or for the 3 months ended 31 March 2020.

**Falcon Oil & Gas Ltd.****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
For the Three Months Ended 31 March 2020 and 2019****9. Share based compensation (continued)**

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

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

The exercise prices of the outstanding options are as follows:

Date of grant	Options	Exercise price CDN\$	Date of Expiry	Weighted average contractual life remaining (years)
15 January 2016	29,333,334	0.11	14 January 2021	0.79
22 February 2017	6,000,000	0.20	21 February 2022	1.90
	<b>35,333,334</b>	<b>0.13</b>		

**10. Determination of fair values**

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

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

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

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**Falcon Oil & Gas Ltd.****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
For the Three Months Ended 31 March 2020 and 2019****11. Financial Instruments and risk management**

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

	31 March 2020		31 December 2019	
	Carrying value	Fair value	Carrying value	Fair value
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets:</b>				
Cash and cash equivalents including restricted cash	13,716	13,716	15,307	15,307
Accounts receivable	151	151	161	161
<b>Financial Liabilities:</b>				
<i>Other financial liabilities</i>				
Accounts payable and accrued expenses	610	610	682	682

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

*Level 1 Fair Value Measurements*

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

*Level 2 Fair Value Measurements*

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

*Level 3 Fair Value Measurements*

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

	Carrying amount	Fair value
	\$'000	\$'000
<b>31 March 2020</b>		
Financial liabilities:		
Warrant	-	-
<b>31 December 2019</b>		
Financial liabilities:		
Warrant	110	110

The instrument in the table above is a Level 2 instrument.

**Falcon Oil & Gas Ltd.****Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
For the Three Months Ended 31 March 2020 and 2019****12. Derivative liabilities**

Derivative liabilities consisted 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 March 2020 and 31 December 2019, and the changes therein for the period then ended, are as follows:

	<b>Warrant \$'000</b>
At 1 January 2019	479
Derivative gain – unrealised – outstanding warrant	(369)
At 31 December 2019 - current	110
Derivative gain – realised - warrant	(110)
<b>At 31 March 2020 - current</b>	<b>0</b>

The terms of the warrant were as follows:

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

\*Proceeds from warrant were 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:

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

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

**Falcon Oil & Gas Ltd.**  
**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)**  
**For the Three Months Ended 31 March 2020 and 2019**

**13. Decommissioning provision**

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

	<b>31 March 2020 \$'000</b>	31 December 2019 \$'000
Balance as at beginning of period	10,331	10,102
Revision to provisions	(4)	3
Accretion	58	226
<b>Non – current; Balance at end of period</b>	<b>10,385</b>	<b>10,331</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's has estimated the net present value of the decommissioning provision to be \$10.1 million as at 31 March 2020 (2019: \$10.1 million) based on an undiscounted total future liability of \$12 million (2019: \$12.1 million). These payments are expected to be made over approximately the next seven years. The discount factor, being the risk-free rate related to the liability, was 2.25% as at 31 March 2020 (2019: 2.25%).

**14. Accounts payable and accrued expenses**

	<b>31 March 2020 \$'000</b>	31 December 2019 \$'000
<b>Current</b>		
Accounts payable	125	194
Accrued expenses	464	467
Royalties payable	21	21
	<b>610</b>	<b>682</b>

**15. Note supporting statement of cash flows**

	<b>Notes</b>	<b>Derivative liability \$'000</b>
At 1 January 2020		110
Non-cash flows – fair value gains realised	12	<b>(110)</b>
<b>At 31 March 2020</b>		<b>-</b>

## Falcon Oil & Gas Ltd.

### Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) For the Three Months Ended 31 March 2020 and 2019

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#### 16. Related party transactions

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

##### *Geoportal Plus Tanácsadó Bt.*

On 1 March 2019, *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 \$8,000 for the period ended 31 March 2020 (2019: \$8,900).

#### 17. Commitments

##### **Work program commitments**

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

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

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

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

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

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work recommenced in 2019, details are included in the Management's Discussion & Analysis for the period ended 31 March 2020 on pages 13 to 15.

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

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.

**Falcon Oil & Gas Ltd.**

**Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)  
For the Three Months Ended 31 March 2020 and 2019**

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**18. Subsequent Events**

On 7 April 2020 Falcon Australia 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 period ended 31 March 2020 on page 15.

**19. Approval of Interim financial statements**

These Interim Financial Statements were approved by the Audit Committee as delegated by the Board of Directors and authorised for issue on 28 May 2020.

**[End of document]**