Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Three and Nine Months Ended 30 September 2016

(Presented in U.S. Dollars)

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INTRODUCTION

The following management's discussion and analysis (the "**MD&A**") was prepared as at 25 November 2016 and is management's assessment of Falcon Oil & Gas Ltd.'s ("**Falcon**") financial and operating results and provides a summary of the financial information of the Company (as hereinafter defined) for the nine months ended 30 September 2016. This MD&A should be read in conjunction with the unaudited interim financial statements for the three and nine months ended 30 September 2016 and 2015 and the audited consolidated financial statements and MD&A for the year ended 31 December 2015.

The Company's independent auditors have not performed a review on the unaudited interim financial statements for the three and nine months ended 30 September 2016 and 2015.

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**").

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended 31 December 2015 dated 28 April 2016 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com and Falcon's website at www.falconoilandgas.com.

Forward-looking statements

Forward-looking statements include, but are not limited to, statements with respect to: the focus of capital expenditures; Falcon's acquisition strategy; the criteria to be considered in connection therewith and the benefits to be derived therefrom; Falcon's goal to sustain or grow production and reserves through prudent management and acquisitions; the emergence of accretive growth opportunities; Falcon's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; development costs and the source of funding thereof; the quantity of petroleum and natural gas resources or reserves; treatment under governmental regulatory regimes and tax laws; liquidity and financial capital; the impact of potential acquisitions and the timing for achieving such impact; expectations regarding the ability to raise capital and continually add to reserves through acquisition and development; the performance characteristics of Falcon's petroleum and natural gas properties; realisation of the anticipated benefits of acquisitions and dispositions; Falcon's ability to establish a broad institutional shareholder base in London, Dublin and Toronto and increase the volume of trading in common shares; expectations regarding the ability of Falcon to access additional sources of funding not currently available; and Falcon's ability to leverage its experience in the unconventional oil and gas industry to acquire interests in licenses.

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the Republic of Hungary, the Commonwealth of Australia, the Republic of South Africa and globally; supply and demand for petroleum and natural gas; industry conditions, including fluctuations in the price of petroleum and natural gas; governmental regulation of the petroleum and natural gas industry, including income tax, environmental and regulatory matters; fluctuation in foreign exchange or interest rates; risks and liabilities inherent in petroleum and natural gas operations, including exploration, development, exploitation, marketing and transportation risks; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut-in or delayed; the ability of our industry partners to pay their proportionate share of joint interest billings; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisition of reserves, processing and transportation capacity, undeveloped land and skilled personnel; the need to obtain required approvals from regulatory authorities; and the other factors considered under "**Risk Factors**" in Falcon's AIF dated 28 April 2016. The forward-looking statements contained in this document are expressly qualified by this cautionary statement. Falcon disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulation.

In addition, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. The following table outlines certain forward looking statements contained in this MD&A and provides material assumptions used to develop such forward looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

Page No.	Forward looking statements	Assumptions	Risk factors
7	*Overview of the business and overall performance - About the Group* "Falcon's strategy is to leverage the Group's expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the Board of Directors of Falcon (the "**Board**") believes support the exploitation of unconventional oil and gas."	The countries in which the Group operates support the exploitation of unconventional oil and gas.	The countries in which the Group operates may change their regulatory environment which might adversely impact the exploitation of unconventional oil and gas resources.
8	*Overview of the business and overall performance – Beetaloo Basin, Northern Territory, Australia - Overview* "The area is remote and sparsely populated and the Board believes that it is well suited for oil and gas projects."	The area is well suited for oil and gas projects.	As the Beetaloo Basin is relatively underexplored it may not have shale oil and shale gas potential.
8	*Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity* "The Board believes that the Beetaloo Basin is relatively underexplored and has shale oil and shale gas potential."	The Board believes that the Beetaloo Basin is relatively underexplored and has shale oil and shale gas.	As the Beetaloo Basin is relatively underexplored it may not have shale oil and shale gas potential.
8	*Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity* "…Falcon announced that Origin Energy Limited ("**Origin**") had submitted a notification of discovery and an initial report on discovery ("**Notification of Discovery**") to the Department of Primary Industry and Resources of the Northern Territory, Australia ("**DPIR**") on the Amungee NW-1H well..."	A discovery has been made and the Beetaloo Basin will continue to be explored.	Despite the Notification of Discovery commerciality may not be reached.
8-9	*Beetaloo basin, Northern Territory, Australia –Transformational Farm out of Beetaloo unconventional acreage* This section in the document from "On 21 August 2014……..fracture stimulated wells." contains forward-looking statements pertaining to the intended work programme, near term expectations and bringing the project toward commerciality. Note A – please refer to page 6.	The work programme will be completed and the project will be brought towards commerciality.	The risks are (1) the work programme is not completed and /or (2) the project is not brought to commerciality.
9-12	*Beetaloo basin, Northern Territory, Australia – Current Activity* This section of the document from "Kalala S-1 was the first of Falcon's fully funded and uncapped 2015 three well drilling and evaluation programme.…… delays the moratorium will have on the drilling and exploration programme." contains forward looking statements. Note A – please refer to page 6.	The Group has assumed that the nine well programme will be completed.	The risks are (1) the work programme is not completed and /or (2) the project is not brought to commerciality.

Page No.	Forward looking statements	Assumptions	Risk factors
11	*Beetaloo basin, Northern Territory, Australia – Current Activity* *<u>"Northern Territory Government Moratorium</u>* Falcon noted the statement made by Chief Minister Michael Gunner…in relation to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia……The joint venture has undertaken to work with the new Government to understand their moratorium policy and shall cooperate with them as required during their scientific inquiry."	The moratorium on hydraulic fracturing will be temporary for the independent scientific inquiry to be completed.	The independent scientific inquiry may be unduly delayed or result in an unfavourable outcome, both of which would adversely impact the nine well work programme.
14	*Karoo basin, South Africa - Current Activity* "The South African Department of Mineral Resources ("**DMR**") informed members of South Africa's parliament in October 2014 that the government was soon expected to issue companies with licences to explore for shale gas."	The awarding of the exploration right over the acreage will occur in 2017.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.
14	Karoo basin, South Africa - Current Activity "On 9 March 2016, Falcon announced …..The Board now expects that the exploration right over the acreage will be awarded in 2017." Note: In the MD&A for the 6 months ended 30 June 2016, the Group had indicated that it expected the award of the exploration right over the acreage would occur in 2016.	The awarding of the exploration right over the acreage will occur in 2017.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.
16	*Alberta, Canada* "Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred."	The Group does not intend to do any further exploration or development of these wells.	The Group may be called upon to increase its cash commitment to these wells, given its interest.
26	*Liquidity & Capital resources – Going concern* "….has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future."	The Group is a going concern.	Due to unforeseen expenditures, the Group may not have available cash to meet its liabilities as they fall due in the foreseeable future.
26	*Liquidity and Capital Resources – Capital Expenditures – Australia – Beetaloo Basin, Northern Territory, Australia* This section of the document from "The Group is conducting a nine well drilling programme with its farm-out partners……. due to the introduction of a moratorium on hydraulic fracturing." Note A – please refer to page 6.	The work programme will be completed and the project will be brought towards commerciality.	The risks are (1) the work programme will not be completed and /or (2) the project is not brought to commerciality.

Page No.	Forward looking statements	Assumptions	Risk factors
27	*Liquidity & Capital Resources – Capital Expenditures - Hungary - Makó Trough, Hungary* "The Group is not planning any independent technical operations in Hungary, and as such no material capital expenditures are expected."	The Group is not planning any independent technical operations in Hungary.	Unforeseen circumstances might require the Group to conduct independent technical operations, or accelerated decommissioning operations in Hungary and incur material expense.
27	*Debt and Equity Capital* "The availability of debt and equity capital, and the price at which additional capital could be issued will be dependent upon the success of the Group's exploration activities, and upon the state of the capital markets generally."	The Group will have continued access to raising funds in the capital markets.	The Group will have limited or no access to raising funds in the capital markets.
28	*Legal matters* "The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations."	The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.	The Company becomes involved in claims, disputes, litigation or other actions with third parties which could have a material adverse effect on its financial condition or results of operations.

Note A: In the MD&A for the six months ended 30 June 2016, the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme. Origin intends meeting with the DPIR soon to agree a revised timetable, taking into account any delays the moratorium will have on the drilling and exploration programme.

Dollar amounts

All dollar amounts in this document are in United States dollars **"$"**, except as otherwise indicated. "**CDN$**" where referenced represents Canadian Dollars; "**£**" where referenced represents British Pounds Sterling, "**HUF**" where referenced represents Hungarian Forints and "**A$**" where referenced represents Australian Dollars.

The financial information provided herein has been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

OVERVIEW OF BUSINESS AND OVERALL PERFORMANCE

About the Group

Falcon is an international oil and gas company engaged in the acquisition, exploration and development of unconventional and conventional oil and gas assets. The Company's interests are located in internationally diversified countries that are characterised by a high regional demand for energy and are close to existing infrastructure allowing for rapid delivery of oil and gas to market.

Falcon's strategy is to leverage the Group's expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the Board believes support the exploitation of unconventional oil and gas. Falcon seeks to add value to its assets by entering into farm-out arrangements with major oil and gas companies that will fully or partially carry Falcon through seismic and drilling work programmes. The Group's principal interests are located in two major underexplored basins in Australia and South Africa; with further interests in Hungary, covering approximately 12.3 million gross acres in total.

Falcon is incorporated in British Columbia, Canada and headquartered in Dublin, Ireland with a technical team based in Budapest, Hungary. Falcon's Common Shares are traded on Toronto's TSX Venture Exchange ("**TSX-V**") (symbol: FO.V); AIM, a market operated by the London Stock Exchange (symbol: FOG) and ESM, a market regulated by the Irish Stock Exchange (symbol: FAC).

Summary of Operations

The following table summarises the principal oil and gas interests of the Company in Australia, South Africa and Hungary:

Assets (Country)	**Interest (%)**	**Operator**	**Status**	**Gross Area (km^2)**
Exploration Permit EP-76 (Beetaloo Basin, Northern Territory, Australia)	30 (i)	Origin (iii)	Exploration	1,891.3
Exploration Permit EP-98 (Beetaloo Basin, Northern Territory, Australia)	30 (i)	Origin (iii)	Exploration	10,316.0
Exploration Permit EP-117 (Beetaloo Basin, Northern Territory, Australia)	30 (i)	Origin (iii)	Exploration	6,412.0
Technical Cooperation Permit, (Karoo Basin, South Africa) (ii)	100	Falcon	TCP	30,327.9
Makó Production Licence (Makó Trough, Hungary)	100	TXM	Production	994.6

Notes:
(i) Falcon owns 98.1% of Falcon Australia, which holds a 30% interest in the Beetaloo Exploration Permits. The remaining 1.9% interest of Falcon Australia is held by others.

(ii) In compliance with the terms of the Technical Cooperation Permit ("**TCP**"), the Company submitted its application for an exploration permit in August 2010. Local counsel has confirmed that despite the TCP expiry date of October 2010 having passed, the Company's interests remain valid and enforceable.

(iii) Falcon completed its farm-out with Origin Energy Resources Limited, a subsidiary of Origin and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), collectively referred to herein as (the **"Farminees**") on 21 August 2014. On completion, Origin was appointed as operator of the exploration permits.

<u>Beetaloo Basin, Northern Territory, Australia</u>

Overview

Falcon Australia is one of the three registered holders of approximately 4.6 million gross acres (approximately 18,619 km^2), 1.4 million net acres, of three exploration permits in the Beetaloo Basin, Northern Territory, Australia. The Beetaloo Basin is located 600 kilometres south of Darwin close to infrastructure including a highway, two pipelines and a railway, offering transport options to the Australian market and beyond via the existing and proposed liquified natural gas capacity in Darwin.

The Beetaloo Basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Basin covers approximately 8.7 million acres (approximately 35,260 km^2) and is a relatively underexplored onshore exploration basin, as far as the Company is aware. The area is remote and sparsely populated and the Board believes that it is well suited for oil and gas projects. Australia has a developed resources industry with a stable political, legal and regulatory system.

Exploration Permits

A summary of Falcon Australia's Beetaloo Exploration Permits is contained in the table on the previous page.

In accordance with local law and regulations, all of Falcon Australia's acreage interests are subject to combined government royalties on production values of up to approximately 12% and 1% (subject to the exercise of Falcon Australia's call option - see "*Overriding Royalty Beetaloo Basin exploration permits*" for details) to other parties. Falcon Australia is also subject to Commonwealth Government corporation tax of 30%, and to the Commonwealth Government's Petroleum Resource Rent Tax ("**PRRT**") levied at the rate of 40% on the taxable profits derived from the petroleum projects. The PRRT is calculated on the individual projects, and royalties are deductible for PRRT purposes. The PRRT tax system is separate from the company income tax system and is based on cash flow. Both royalties and PRRT are deductible for corporate income tax purposes.

Overriding Royalty - Beetaloo Basin exploration permits

On 1 November 2013, Falcon announced that Falcon Australia had entered into an agreement (**"CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% overriding royalty interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin. On 17 December 2013, Falcon announced that Falcon Australia had entered into an agreement (**"TOG Agreement"**) with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire up to 7% (seven eighths) of their 8% private ORRI over Falcon Australia's exploration permits in the Beetaloo Basin. The Group completed the two agreements to acquire 8% of the privately held ORRI at a total cost of $7 million, of which $1 million was paid in November 2013 and $6 million on completion of the Beetaloo farm–out with Origin and Sasol in August 2014. The Group has also secured an agreement to acquire a further 3% based on two five year call options granted to Falcon Australia at a future combined cost to Falcon Australia and its Farminee partners, in their proportionate share of $20 million leaving only a 1% royalty in private hands.

Discoveries and Prospectivity

The Board believes that the Beetaloo Basin is relatively underexplored and has shale oil and shale gas potential. Previously, work was undertaken by a Rio Tinto Group subsidiary company exploring for conventional hydrocarbons and while not leading to a conventional development, the data from the cores demonstrated the presence of tight oil and gas and several horizons were shown to be prospective for unconventional oil and gas.

There are no existing fields but there are numerous mudlog oil and gas shows and oil indications on cores throughout the Beetaloo Basin in prospective formations. The Shenandoah-1 well was a vertical hole well drilled by Sweetpea Petroleum Pty Ltd. ("**Sweetpea**") in 2007. The well was deepened by Falcon Australia in 2009 to finish at 2,714 metres. It was re-entered in Quarter 3 2011 and five short tests were conducted including several fracking operations. Gas was recovered from three zones with some liquids.

During 2011 and 2012 Falcon Australia's previous joint venture partner, Hess Australia (Beetaloo) Pty. Ltd ("**Hess**"), acquired 3,490 kilometres of 2D seismic data, investing approximately $80 million at no cost to Falcon. The seismic database, along with existing well data, provided a very solid platform to extrapolate a detailed structural and stratigraphic model for the main parts of the Beetaloo Basin. All the necessary elements of a productive unconventional and conventional petroleum system have been identified in multiple shales and sand reservoirs, and it is now clear that the Beetaloo Basin is an active petroleum system.

On 12 October 2016 Falcon announced that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, Australia. The Notification of Discovery is a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act. Further details on the Notification of Discovery are included under the Current Activity heading on page 9.

Transformational Farm out of Beetaloo unconventional acreage

On 21 August 2014, Falcon Australia completed its farm-out agreement and joint operating agreement (collectively the **"Agreements**") with the Farminees, each farming into 35% of Falcon Australia's exploration permits in the Beetaloo Basin, Australia (the **"Permits**").

The transaction details were:

- Falcon Australia received A$20 million cash from the Farminees.
- Origin was appointed as operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal programme over 2014 to 2018 inclusive, detailed as follows:
  - 3 vertical exploration/stratigraphic wells and core studies;
  - 1 hydraulic fracture stimulated vertical exploration well and core study;
  - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
  - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retained a 30% interest in the Permits.
- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns.
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic data collection with a capped expenditure of A$53 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A$48 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees may reduce or surrender their interests back to Falcon Australia only after:
  - The drilling of the first five wells; or
  - The drilling and testing of the subsequent two horizontally fracture stimulated wells.

Current Activity

On **15 July 2015**, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 was the first of Falcon's fully funded and uncapped 2015 three well drilling and evaluation programme. Kalala S-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. It is located within exploration permit 98, with access from the existing Carpentaria Highway. Rig 185, an ATS 400 was commissioned from Saxon Energy Services Australia Pty. Ltd, a Schlumberger company. On **1 September 2015** Falcon announced that drilling operations had successfully concluded on the Kalala S-1 well, with the well drilled to a total depth ("**TD**") of 2,619 meters.

On **8 September 2015** Falcon announced the spudding of the second well, Amungee NW-1 well in the Beetaloo Basin, Australia. Amungee NW-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. On **22 October 2015** Falcon announced that drilling operations successfully concluded on the Amungee NW-1 well, with the well drilled to a TD of 2,611 meters.

The drilling of the first horizontal well in the Beetaloo Basin programme, originally planned for the end of 2016 was brought forward into October - November 2015. Based on the high gas saturation and favourable shale properties encountered in the Amungee NW-1 vertical well, the Middle Velkerri B shale was selected as the target of a 1,100 meter horizontal section, representing the "Amungee NW-1H" well.

The exploration program was also expanded with the introduction of Diagnostic Fracture Injection Tests ("**DFITs**"). DFIT is the most adequate tool to obtain reservoir quality data, such as pressure and permeability and completion quality data, all pertaining to the prospectivity of the Middle Velkerri shale gas play.

On **18 November 2015** Falcon announced the successful conclusion of drilling operations on the Amungee NW-1H horizontal well. Total measured depth was 3,808 meters, including a 1,100 meter horizontal section in the "B Shale" interval of the Middle Velkerri Formation. The Amungee NW-1H well was suspended until the performance of the multi-stage hydraulic fracturing planned for mid-2016.

Rig 185 was "warm stacked" on location in the Beetaloo basin allowing for the early commencement of the 2016 drilling program.

On **28 April 2016** Falcon provided the following update for its operations in the Beetaloo Basin, Australia.

2015 Drilling Programme - Technical Results
The results from the in-depth shale evaluation program and petrophysical analysis of the three wells drilled in 2015 confirmed the following:

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

2016 Drilling and Testing Programme - Objectives
The objectives of the 2016 Beetaloo drilling and testing programme comprise:

- Testing gas productivity of the Middle Velkerri shale from the horizontal Amungee NW-1H well by means of a multi-stage hydraulic fracture stimulation programme.
- Proving the areal extent of the Middle Velkerri shale gas play towards the southern part of the Beetaloo Basin, through the drilling and testing of the vertical Beetaloo W-1 well, which is to be located approximately 85km south of the Kalala S-1 and Amungee NW-1H wells; and some 35km south of the Shenandoah S-1 well.
- Testing of the shallower, condensate rich gas mature sections of the Middle Velkerri shale on the northern basin flank through drilling the second vertical well in 2016, located approximately 35km north of the Kalala S-1 and Amungee NW-1H wells within exploration permit ("**EP**") 98.
- Characterization of the Kyalla shale as a secondary target could provide upside and enhanced liquids potential.

On **22 June 2016** Falcon provided an operational update noting the following:

- Operations to re-enter the horizontal Amungee NW-1H well had commenced.
- The Company's operating partner, Origin, expected the running of production casing and cementing on this well to be completed by the end of June.
- A multi-stage fracture stimulation programme to test the Middle Velkerri "B" shale reservoir would be performed on Amungee NW-1H.
- Civil works at the Beetaloo W-1 vertical well commenced mid-May 2016.

On **25 July 2016** Falcon announced the successful re-entry and casing of Amungee NW-1H horizontal well and the spudding of the Beetaloo W-1 vertical well in the Beetaloo Basin, Australia.

Amungee NW-1H
The 1,100 meter horizontal section of Amungee NW-1H was successfully cased and cemented in July 2016 and preparations were finalised to conduct a multi-stage hydraulic stimulation.

Beetaloo W-1
The Beetaloo W-1 well was the fourth of Falcon's fully carried five well 2015-2016 drilling and evaluation programme, the initial phase of a nine well drilling and evaluation programme.

- This well, targeting the unexplored southern Beetaloo Basin for shale and hybrid shale-sand plays in the Velkerri and Kyalla formations, was spudded on 22 July 2016.
- The well was designed to test the presence, depth, thickness and physical reservoir properties of the organic rich mudstones of the Kyalla Formation and the Middle Velkerri member.

- The well which is within exploration permit 117, is located approximately 85 kilometres south of the first well drilled, Kalala S-1.
- Rig 185, an ATS 400 originally commissioned for the drilling of Kalala S-1, Amungee NW-1 and Amungee NW-1H from Saxon Energy Services Australia Pty. Ltd, was used.

On **14 September 2016** Falcon provided a technical and operational update and noted the following in relation to Northern Territory Government moratorium:

<u>Beetaloo W-1 well</u>
Drilling operations were successfully concluded on the Beetaloo W-1 well. Results encountered were very encouraging, with the well drilled to TD of 3,173 meters.

Preliminary evaluation of this vertical exploration well confirmed:

- The continuation of the regionally pervasive Middle Velkerri formation approximately 85 kilometers south of the Kalala S-1 and Amungee NW-1H wells.
- A gross interval of over 570 meters shale gas sequence with net pay exceeding 150 meters.
- Middle Velkerri shale falls in a highly prospective gas mature depth window.
- Excellent gas shows at two prospective shale sweet spots at the top and base of the Middle Velkerri formation, comparable to those encountered during the 2015 drilling programme.
- The Lower Kyalla formation, considered as a secondary shale target, provided excellent gas shows within a 150 meter thick liquid rich sequence.

Conventional coring in the Lower Kyalla formation along with sidewall cores and extensive wireline logging in the Middle Velkerri formation enables a full-scale evaluation of prospectivity in the southern part of the Beetaloo basin. As planned, the well was cased to TD and suspended.

Rig 185 was released and demobilised.

<u>Hydraulic Stimulation of the Horizontal Amungee NW-1H Well</u>

- Hydraulic stimulation of the horizontal Amungee NW-1H well was completed
- 11 hydraulic stimulation stages were performed over a 1,000 meter horizontal section
- The flow back of hydraulic stimulation fluids had commenced, with an expectation that gas would start flowing back to surface within one to two weeks.

<u>Northern Territory Government Moratorium</u>
Falcon noted the statement made by Chief Minister Michael Gunner, of the newly elected Government in relation to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia. The Chief Minster stated that:

"The moratorium on hydraulic fracturing of onshore unconventional reservoirs within the Northern Territory will remain in place until government has thoroughly considered the recommendations of the [independent scientific] inquiry."

The joint venture has undertaken to work with the new Government to understand their moratorium policy and shall cooperate with them as required during their scientific inquiry.

On **29 September 2016** Falcon provided the following technical update regarding the hydraulic stimulation of the horizontal Amungee NW-1H well:

- Completion of 11 hydraulic stimulation stages along the 1,000 meter horizontal section in the Middle Velkerri B shale zone.
- Stimulation treatments were successfully executed, with 95% of programmed proppant placed.
- Flow back of hydraulic fracture stimulation fluid to surface continued.
- Early stage gas flow rates through the 4.5" casing are encouraging.
- The rates regularly exceeded 1 million standard cubic feet per day ("**MMscf/d**"), and consistently ranged between 0.4 - 0.6 MMscf/d.
- A workover rig was being mobilised to run production tubing and to commence an extended production test.

On **12 October 2016** Falcon announced Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, Australia. The Notification of Discovery is a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act.

Details of Notification of Discovery from Origin to the DPIR were as follows:

- Origin gathered sufficient data to confirm the discovery of a petroleum accumulation.
- Production test data supported by petrophysical log data along with full and sidewall core analysis confirmed the discovery.
- Gas rates ranged between 0.8 and 1.2 MMscf/d with continuing flow back of hydraulic fracture stimulation fluid of volumes between 100 and 400 barrels per day.
- Initial estimates suggested a dry gas composition with less than 4% CO_2.
- Main physical properties of the discovered accumulation were thickness of 30 meters, between 4.0% and 7.5% porosity, a gas saturation range of 50% to 75%, and permeability between 50 and 500 nano-Darcy.
- Evaluation to determine the resource size is underway.

The Group had previously indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme. Origin intends meeting with the DPIR soon to agree a revised timetable, taking into account the delays the moratorium will have on the drilling and exploration programme.

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Karoo Basin, South Africa

Overview

The Company holds a TCP covering an area of approximately 7.5 million acres (approximately 30,327 km^2), in the southwest Karoo Basin, South Africa, granting the Company exclusive rights to apply for an exploration right over the underlying acreage. In August 2010, the Company submitted an application to the Petroleum Agency of South Africa ("**PASA**") for an exploration right over the TCP acreage. As part of the application process, the Company submitted an environmental management plan in January 2011 which the PASA requested to be updated in October 2014, this update was completed and submitted on 27 February 2015.

Technical Regulations

On 1 February 2011, the Minister of Mineral Resources (the "**Minister**") published a notice in the Government Gazette declaring a moratorium on processing new applications for the exploration and production of shale gas in the Karoo Basin. This moratorium did not extend to existing applications submitted prior to 1 February 2011 such as Falcon's. The moratorium was subsequently superseded by a notice published on 3 February 2014, which also excluded from its ambit applications submitted prior to 1 February 2011 subject to a condition that such applications, if granted, would not authorise hydraulic fracturing until regulations were in place to govern the process.

On 3 June 2015, the Minister published the final Regulations for Petroleum Exploration and Production, which prescribe various technical and environmental standards for onshore hydraulic fracturing. The promulgation of the regulations means that exploration companies may now conduct hydraulic fracturing if all necessary statutory approvals are in place.

Fiscal Terms

The Mineral and Petroleum Resources Development Act, 28 of 2002 empowers the Minister of Mineral Resources, when granting an application for an exploration right, to direct the applicant to sell an interest in the operation to a Historically Disadvantaged South African ("**HDSA**"). The amount of the interest is, in practice, derived from the Liquid Fuels Charter, which is a policy instrument governing participation by HDSAs in the petroleum industry. At the production stage of the project, it is a statutory condition for the grant of a production right that an HDSA holds 10% of the interest in the operation. The way in which HDSAs earn or pay for the 10% interest is not legislated, meaning that applicants are free to negotiate suitable terms with prospective HDSAs subject to the "unofficial approval" of the PASA. State participation in exploration and production rights are currently not addressed in legislation. In the past, the practice has been for exploration rights to incorporate a clause giving the State an option to acquire an interest of up to 10% in any production right granted through the national oil company. However, it is not required to pay any consideration for its 10% interest or contribute to past costs, but must contribute pro rata in accordance with its interest towards production costs going forward.

On 12 March 2014, South Africa's parliament approved the Mineral and Petroleum Resources Development Amendment Bill ("**MPRDA Bill**") which amends the Mineral and Petroleum Resources Development Act (28 of 2002). Among the proposed changes, the law provides the state with a free carried interest of 20% in all new gas and oil exploration and production ventures. In addition to this 20% free carried interest, the government introduced a new clause entitling it to further participation in the form of an acquisition at an agreed price or production sharing agreements. No percentage limit on this entitlement has been stated in the amendments. The MPRDA Bill only provides a framework and regulations must be promulgated to give effect to it. In Q2 2014, the then Minister requested the President of South Africa to delay the signing of the MPRDA Bill to investigate the matter further. In January 2015, the President of South Africa referred the MPRDA Bill back to the National Assembly for reconsideration.

Corporation tax in South Africa is imposed at a rate of 28% of taxable income. Dividends tax is imposed on the shareholder at a rate of 15%, but it may be reduced to 5% in terms of a Double Tax Agreement (if applicable), or to 0% in respect of dividends paid by an oil and gas company out of amounts attributable to its oil and gas income.

The South African Government is entitled to a royalty on the sale of mineral resources of up to 7% of gross sales for unrefined resources and 5% of gross sales for refined resources, such as oil and gas.

Discoveries and Prospectivity

In its entirety, the Karoo Basin is approximately 173 million acres (approximately 700,000 km^2) in size, located in central and southern South Africa and contains thick, organic rich shales such as the Permian Whitehill Formation. The Karoo describes a geological period lasting some 120 million years and the rocks laid down during that period of time, covering the late Paleozoic to early Mesozoic interval periods. These rocks were deposited in a large regional basin and resulted in the build-up of extensive deposits. Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting in very limited modern hydrocarbon exploration onshore in South Africa. In an independent report dated June 2013, the U.S. Energy Information Administration ("**EIA**") estimated that there are 390 trillion cubic feet ("**Tcf**") technically recoverable resources in the Karoo Basin which would rank it fifth in the world after China, USA, Argentina and Mexico for shale gas potential. In particular, the Permian Ecca group contains three potential shales identified as having potential for shale gas. The shale in the Whitehall Formation, in particular, is considered ubiquitous, has a high organic content and is thermally mature for gas.

Cooperation agreement
In December 2012, Falcon entered into a cooperation agreement with Chevron Business Development South Africa Limited ("**Chevron**") to jointly seek unconventional exploration opportunities in the Karoo Basin. The Chevron agreement provides for Falcon to work with Chevron for a period of five years to jointly seek to obtain exploration rights in the Karoo Basin subject to the parties mutually agreeing participation terms applicable to each right. As part of the Chevron agreement, Chevron made a cash payment to Falcon of $1 million in February 2013 as a contribution to past costs.

Current activity
The DMR informed members of South Africa's parliament in October 2014 that the government was soon expected to issue companies with licences to explore for shale gas.

On 3 November 2014, Falcon was notified by the PASA that a decision had been taken to proceed with processing of the Company's application for a shale gas exploration licence in South Africa's Karoo Basin. The PASA requested Falcon to review and update its Environmental Management Programme where necessary. This was completed and submitted on the 27 February 2015.

In May 2015, the South African government formally launched a 24-month strategic environmental assessment ("**SEA**") of shale gas mining in the Karoo, in an effort to understand the potential social, economic and environmental risks and opportunities of exploiting probable, but as yet unexplored, unconventional gas resources in the water-stressed territory. This SEA does not prevent exploration companies from conducting parallel exploration activities within this timeframe.

The scope of the SEA covers biodiversity and ecosystem services; water resources, including surface and groundwater; geophysics; economics, including the impact on agriculture and tourism; spatial planning; national energy planning; waste management; human health impacts; air quality; the impact on the social fabric; visual and noise impacts; heritage resources and the possible impact on the area's 'sense of place'.

On 9 March 2016 Falcon announced that the PASA confirmed it expected to finalise a recommendation to the Minister on Falcon's application for a shale gas exploration licence in South Africa's Karoo Basin, by May 2016.

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

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Makó Trough, Hungary

Overview

Falcon has been active in the Makó Trough since 2005 when it acquired two exploration licences, the Makó and the Tisza exploration licences. Between 2005 and 2007, Falcon pursued a work programme consisting of the acquisition of 1,100 km^2 of 3D seismic data and a six-well drilling programme. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. In 2007, Falcon's subsidiary, TXM, was awarded the 35-year Makó Production Licence which covers some of the acreage originally covered by the Makó and the Tisza exploration licences.

Hungary is an established oil and gas producing country. The Makó Production Licence is in the vicinity of the largest producing field in Hungary, the MOL Group owned and operated Algyő field, which has produced approximately 2.5 Tcf and 220 million barrels of oil to date. The Makó Production Licence is located approximately ten kilometres to the east of the MOL Group owned and operated Algyő field and is transected by existing gas pipelines and infrastructure, including a 12 kilometre gas pipeline built by Falcon in 2007, together offering transport and potential access to local markets and larger distribution centres for international markets.

Makó Production Licence

The Makó Production Licence was granted by the Hungarian Mining Authority over a gas exploration project in the Makó Trough, located in south-eastern Hungary. The lands within the Makó Production Licence were formerly part of the Group's two hydrocarbon exploration licences – the Tisza exploration licence and the Makó exploration licence.

The Makó Production Licence covers approximately 245,775 acres (approximately 1,000 km^2) and is held 100% by TXM, a wholly owned subsidiary of the Group. Under the terms of the Makó Production Licence, the Group is obliged to pay a 2% royalty to the Hungarian Government on any unconventional production and has a further 5% royalty payable under an agreement with Prospect Resources Inc., the previous owners of the acreage covered by the Makó Production Licence. Corporate profits are taxed at 19% on the part of the tax base which exceeds HUF500 million (approximately $1.8 million); below that a level reduced rate of 10% applies. In 2009, an additional profit based energy industry tax, levied on energy supplying companies, was introduced. The rate is 31%, with deductions allowable for certain capital expenditures. TXM is the operator and there are no outstanding work commitments on the Makó Production Licence.

Discoveries and Prospectivity

The Makó Trough contains two plays:

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

The Algyő Play

The Algyő Play is a relatively shallow play of between 2,300 and 3,500 metres. A number of Falcon wells have been drilled through the Algyő Play in recent years, some of which encountered gas shows, but none of those wells tested the shallow play concept at an optimal location, as these wells targeted the Deep Makó Trough, at intervals of up to 6,000 metres. Multiple Algyő prospects were identified by the Group through extensive amplitude versus offset analysis, and 3D seismic data showed the presence of possible gas zones above the Szolnok formation (part of the Deep Makó Trough).

In January 2013, Falcon agreed to a three-well drilling exploration programme with Naftna industrija Srbije jsc ("**NIS**"), 56% owned by Gazprom Group, to target the Algyő Play, whereby NIS made a cash payment of $1.5 million to Falcon in February 2013, and agreed to drill three wells by July 2014.

Only two wells were drilled. Drilling operations on Kútvölgy-1, the first joint well were completed in July 2013, the well having reached TD of 3,305 metres. As anticipated, the top of the Algyő Formation was encountered at 2,985 metres, the well then penetrating an alternating sequence of sandstones, siltstones and shales over a gross interval of 320 metres to TD, with gas shows throughout. Two conventional cores were taken and extensive wireline logs were run. Testing indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates thus was discontinued with the well being plugged and abandoned.

On 27 November 2014 Falcon announced that well testing operations on the second well, Besa-D-1 were completed. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated that well production did not meet commercial rates with the well also being plugged and abandoned. On 3 December 2015, Falcon announced it had signed a termination agreement with NIS terminating the Oilfield Services Contract entered into between the parties in January 2013. NIS paid $3.7 million to Falcon in fulfilment of its contractual obligations. Falcon retains a 100% interest in the Algyő Play.

The Deep Makó Trough
This is a deeper unconventional play targeting gas, and to a lesser extent oil, in the low permeability and low porosity rocks in the deeper horizons of the basin.

Between 2005 and 2007, Falcon acquired 1,100 km^2 of 3D seismic data and executed a six-well drilling programme on the Deep Makó Trough. Early exploration efforts focused on proving hydrocarbon potential and delineation of the basin in order to secure the Makó Production Licence. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. Several wells flowed gas on test and one well, Magyarcsanád-1, tested light oil. The Makó-7 results demonstrated the presence of a very large column of hydrocarbons in the well-bore. As noted previously, Falcon constructed a 12 kilometre gas pipeline in 2007 which connected the Makó-6 and Makó-7 wells with a MOL operated pipeline, offering potential access to local and international markets.

Current activity
During Q1 2015, the Group placed US$2.0 million on deposit for the benefit of the Hungarian mining authority as a security deposit with regards the Group's decommissioning obligations.

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

<u>Alberta, Canada</u>

For the period ended 30 September 2016, Falcon had revenue of $4,000 (2015: $6,000) earned from its Alberta, Canada non-operating working interests (the "**Hackett Interest**"). Falcon's Alberta interests are in three producing and one shut-in, natural gas wells. Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred.

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RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the unaudited unreviewed interim condensed consolidated financial statements for the three months ended 30 September 2016 and 2015 and, the audited consolidated financial statements for the year ended 31 December 2015.

Management's Discussion and Analysis of financial condition and results of operations for the three months ended 30 September 2016 as compared to the three months ended 30 September 2015

The Company reported a net loss of $0.6 million for the three months ended 30 September 2016 as compared to a net loss of $0.4 million for the three months ended 30 September 2015. Changes between 2016 and 2015 were as follows:

	Three months ended 30 September		Changes	
	2016	2015		
	$'000	$'000	$'000	%
Revenue				
Oil and natural gas revenue	**3**	2	1	50%
Expenses				
Exploration and evaluation expenses	**(77)**	(141)	64	-45%
Production and operating expenses	**(4)**	(4)	-	0%
Depreciation	**(1)**	(8)	7	-88%
General and administrative expenses	**(440)**	(565)	125	-22%
Share based compensation	**(222)**	(28)	(194)	693%
Foreign exchange gain	**10**	30	(20)	-67%
Other Income	**2**	1	1	100%
	(732)	(715)	(17)	2%
Results from operating activities	**(729)**	(713)	(16)	2%
Fair value gain – outstanding warrant	**169**	291	(122)	-42%
Finance (expense) / income				
Interest income on bank deposits	**6**	68	(62)	-91%
Accretion of decommission provisions	**(31)**	(31)	-	0%
Net foreign exchange loss	**-**	(7)	7	-100%
	(25)	30	(55)	-183%
Loss and comprehensive loss	**(585)**	(392)	(193)	49%
Loss and comprehensive loss attributable to:				
Equity holders of the company	**(586)**	(390)	(196)	50%
Non-controlling interest	**1**	(2)	3	-150%
Loss and comprehensive loss	**(585)**	(392)	(193)	49%

Oil and natural gas revenue
Oil and natural gas revenue of $3,000 (2015: $2,000) consists of the sale of natural gas from the Hackett Interest in Alberta, Canada. The Company has not yet realised significant revenue from its planned operations elsewhere.

Exploration and evaluation expenses
Exploration and evaluation expenses represent recurring maintenance and landowner costs in maintaining and safeguarding the Company's Hungarian wells along with exploration costs associated with the Company's TCP in South Africa. The decrease in costs quarter on quarter is primarily attributable to the timing of maintenance work in Hungary and the non-recurrence of costs associated with the Company's TCP in 2016.

Depreciation
The three months ended 30 September 2016 and 30 September 2015 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office.

General and administrative expenses

	Three months ended 30 September		**Change**	
	2016	**2015**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(41)**	(60)	19	-32%
Consulting fees	**(19)**	(14)	(5)	36%
Legal fees	**(6)**	(12)	6	-50%
Investor relations	**(21)**	(67)	46	-69%
Office and administrative costs	**(56)**	(86)	30	-35%
Payroll and related costs	**(229)**	(229)	-	0%
Directors' fees	**(60)**	(68)	8	-12%
Travel and promotion	**(8)**	(29)	21	-72%
	(440)	(565)	125	-22%

General and administrative expenses decreased by $0.13 million to $0.44 million in 2016 from $0.57 million in 2015. The main changes were as follows:

- Accounting and audit fees: The decrease is due to management's focus on managing the costs of accounting and audit fees incurred by the Group.
- Consulting and Legal fees: The overall decrease is due to the on-going focus on cost containment by management during the period.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. The decrease of the three months ended 30 September 2016 in comparison with the three months ended 30 September 2015 is due to a reduction in advisor costs during the period.
- Office and Administrative expenses have decreased in the period due to the ongoing focus on managing costs incurred by the Group.
- Travel and promotion decreased in the current three month period in comparison with the comparative three months to September 2015. Certain levels of travel and promotion costs are due to the international geography of the Group's assets and investor base.

Share based compensation
Share based compensation expense increased in the three months ended 30 September 2016 in comparison to the three months ended 30 September 2015. The increase occurred as a result of the granting of 38.7 million options in January 2016, one third of which vested immediately, with an additional one third vesting on each subsequent anniversary until they are fully vested in January 2018.

Foreign exchange gain
The foreign exchange gain recorded in operating expenses for the three months ended 30 September 2016 is attributed to favourable movements to the US Dollar since 30 June 2016. The foreign exchange gain recorded in operating expenses for the three month period ended 30 September 2015 was primarily attributed to the revaluation of the Hungarian decommissioning provision at 30 September 2015. The provision was estimated in US dollar at 31 December 2015, thus no similar exchange occurred in the three months to 30 September 2016.

Fair value gain – outstanding warrant
There is an decrease on the fair value gain from the three months ended 30 September 2015 to the three months ended 30 September 2016. The primary factor associated with this valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN17.0 cents at 30 June 2015 to CDN13.0 cents at 30 September 2015. For the similar three months in 2016, the valuation movement in the hess warrant was driven by the decrease in the share price from CDN12.0 cents at 30 June 2016 to CDN8.5 cents at 30 September 2016.

Finance (expense) / income
The movement is primarily due to a decrease in interest income on bank deposits period on period.

Loss attributable to non-controlling interest
The amounts reflected in 2016 and 2015 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Three months ended 30 September	
	2016	2015
	$'000	$'000
Net cash used in operating activities	**(500)**	(576)
Net cash generated by/ (used in) investing activities	**3,004**	(110)
Change in cash and cash equivalents	**2,504**	(686)
Effect of exchange rates on cash & cash equivalents	**(3)**	2
Cash and cash equivalents at beginning of period	**4,400**	4,526
Cash and cash equivalents at end of period	**6,901**	3,842
Cash on deposit – maturity greater than three months	**3,701**	6,000
	10,602	9,842

Cash and cash equivalents have increased by $3.1 million to $6.9 million in 2016 from $3.8 million in 2015. The main changes were as follows:

- Net cash used in operating activities: The decrease is due to focus on managing the costs of operating expense incurred by the Group.
- Net cash generated in investing activities: The 2016 increase in due primarily to cash coming off deposit with a maturity greater than three months at the period end date.

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RESULTS OF OPERATIONS

Management's Discussion and Analysis of financial condition and results of operations for the nine months ended 30 September 2016 as compared to the nine months ended 30 September 2015

The Company reported a loss of $2.9 million for the nine months ended 30 September 2016 as compared to a net loss of $2.0 million for the nine months ended 30 September 2015. Changes between 2016 and 2015 were as follows:

	Nine months ended 30 September		**Changes**	
	2016	**2015**		
	$'000	**$'000**	**$'000**	**%**
Revenue				
Oil and natural gas revenue	**4**	6	(2)	-33%
Expenses				
Exploration and evaluation expenses	**(265)**	(593)	328	-55%
Production and operating expenses	**(12)**	(15)	3	-20%
Depreciation	**(12)**	(26)	14	-54%
General and administrative expenses	**(1,584)**	(1,830)	246	-13%
Share based compensation	**(1,252)**	(228)	(1,024)	449%
Foreign exchange gain	**28**	755	(727)	-96%
Other Income	**2**	1	1	100%
	(3,095)	(1,936)	(1,159)	60%
Results from operating activities	**(3,091)**	(1,930)	(1,161)	60%
Fair value gain – outstanding warrant	**231**	22	209	950%
Finance expense				
Interest income on bank deposits	**31**	75	(44)	-59%
Accretion of decommission provisions	**(93)**	(92)	(1)	1%
Net foreign exchange gain / (loss)	**2**	(80)	82	-103%
	(60)	(97)	37	-38%
Loss and comprehensive loss	**(2,920)**	(2,005)	(915)	46%
Loss and comprehensive loss attributable to:				
Equity holders of the company	**(2,918)**	(2,000)	(918)	46%
Non-controlling interest	**(2)**	(5)	3	-60%
Loss and comprehensive loss	**(2,920)**	(2,005)	(915)	46%

Oil and natural gas revenue
Oil and natural gas revenue of $4,000 (2015: $6,000) consists of the sale of natural gas from the Hackett Interest in Alberta, Canada. The Company has not yet realised significant revenue from its planned operations elsewhere.

Exploration and evaluation expenses
Exploration and evaluation expenses represent recurring maintenance and landowner costs in maintaining and safeguarding the Company's Hungarian wells along with exploration costs associated with the Company's TCP in South Africa. The decrease in costs period on period is attributable to savings materialising as a result of the restructuring of the Group's technical function in Budapest in 2015 and the non-recurrence of costs incurred by the Group in updating its environmental management plan as requested by the South African PASA during the nine months ended 30 September 2015.

Depreciation
The nine month ended 30 September 2016 and 30 September 2015 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office.

General and administrative expenses

	Nine months ended 30 September		**Change**	
	2016	**2015**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(100)**	(183)	83	-45%
Consulting fees	**(60)**	(55)	(5)	9%
Legal fees	**(26)**	(53)	27	-51%
Investor relations	**(113)**	(198)	85	-43%
Office and administrative costs	**(302)**	(291)	(11)	4%
Payroll and related costs	**(688)**	(736)	48	-7%
Directors' fees	**(198)**	(207)	9	-4%
Travel and promotion	**(97)**	(107)	10	-9%
	(1,584)	(1,830)	246	-13%

General and administrative expenses decreased by $0.2 million to $1.6 million in 2016 from $1.8 million in 2015. The main changes were as follows:

- Accounting and audit fees: The decrease is due to focus on managing the costs of accounting and audit fees incurred by the Group.
- Consulting and Legal fees: The fees have reduced year on year due to the on-going focus on cost containment by management during the period.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. The decrease of the nine months ended 30 September 2016 in comparison with the nine months ended 30 September 2015 is due to a reduction in advisor costs during the period.
- Office and Administrative expenses have increased due to one off costs associated with the Dublin office relocation in May 2016.
- Travel and promotion decreased in the current nine month period over the comparative nine months. Certain levels of travel and promotion costs are due to the international geography of the Group's assets and investor base.

Share based compensation
Share based compensation expense increased in the nine months ended 30 September 2016 in comparison to the nine months ended 30 September 2015. The nine months ended 30 September 2016 includes a charge of $1 million for the proportionate share of the 38.7 million options granted in January 2016, one third of which vested upon granting.

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Foreign exchange gain
The foreign exchange gain recorded in operating expenses for the nine months ended 30 September 2016 is attributed to favorable movements to the US Dollar since 31 December 2015. The foreign exchange gain recorded in operating expenses for the period ended 30 September 2015 was primarily attributed to the revaluation of the Hungarian decommissioning provision at 30 September 2015. The provision was estimated in US dollar at 31 December 2015, thus no similar exchange occurred in the nine months to 30 September 2016.

Fair value gain – outstanding warrant
Period on period there is a change of $0.2 million attributable to the valuation of the outstanding warrant. In 2015 the factors associated with the valuation gain was Falcon's share price (as quoted on the TSX-V) which moved from CDN11.5 cents at 31 December 2014 to CDN13 cents at 30 September 2015, the impact of the increased share price movement for the 9 months was offset by favourable movements of the US$ against the CDN$ and resulted in an overall fair value gain on the outstanding warrant at the 30 September 2015. For the similar nine months in 2016, the valuation movement in the warrant was driven by the reduction in the share price from CDN12.5 cents at 31 December 2015 to CDN8.5 cents at 30 September 2016.

Finance expense
Net finance expense saw movement from an expense of $0.1 million in 2015 to $0.06 million in 2016. The favourable movement in foreign exchange losses of $0.08 million period on period was offset by reduced interest income on bank deposits by $0.04 million in the same period.

Loss attributable to non-controlling interest
The amounts reflected in 2016 and 2015 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Nine months ended 30 September	
	2016 **$'000**	2015 $'000
Net cash used in operating activities	**(1,977)**	(2,545)
Net cash used in investing activities	**(1,811)**	(2,101)
Change in cash and cash equivalents	**(3,788)**	(4,646)
Effect of exchange rates on cash & cash equivalents	**6**	(265)
Cash and cash equivalents at beginning of period	**10,683**	8,753
Cash and cash equivalents at end of period	**6,901**	3,842
Cash on deposit – maturity greater than three months	**3,701**	6,000
	10,602	9,842

Cash and cash equivalents have increased by $3.1 million to $6.9 million in 2016 from $3.8 million in 2015. The main changes were as follows:

- Net cash used in operating activities: The decrease is due to focus on managing the costs of operating expense incurred by the Group.
- Net cash used in investing activities: The 2016 increase in due primarily to the placing of cash on deposit with a maturity in excess of three months at 30 September 2016. The 2015 outflow is a result of $2 million placed on deposit for the benefit of the Hungarian mining authority.
- Effect of exchange rates on cash & cash equivalents: is attributed to movements to the US Dollar in the respective nine month period of 30 September 2016 from 31 December 2015 and 30 September 2015 from 31 December 2014.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of the eight most recently completed quarters:

(In thousands of $ unless otherwise stated)

As of:	**31 December 2015**	**31 March 2016**	**30 June 2016**	**30 September 2016**
Total assets	54,894	54,232	53,274	52,763
Exploration and evaluation assets	39,618	39,618	39,618	39,618
Working capital	11,555	11,042	10,326	9,974
Total shareholders' equity	43,227	42,767	41,926	41,561

For the three months ended:	**31 December 2015**	**31 March 2016**	**30 June 2016**	**30 September 2016**
Revenue	1	-	1	3
Income / (loss)	1,805	(1,282)	(1,053)	(585)
Income / (loss) attributable to common shareholders	1,807	(1,280)	(1,052)	(586)
Income/ (loss) per share-basic and diluted (cent)	0.000	(0.001)	(0.001)	0.001

As of:	**31 December 2014**	**31 March 2015**	**30 June 2015**	**30 September 2015**
Total assets	55,353	53,990	53,032	52,201
Exploration and evaluation assets	39,619	39,616	39,616	39,616
Working capital	13,213	10,137	9,109	8,773
Total shareholders' equity	43,164	43,091	41,755	41,392

For the three months ended:	**31 December 2014**	**31 March 2015**	**30 June 2015**	**30 September 2015**
Revenue	4	3	1	2
Loss	(27,794)	(237)	(1,376)	(392)
Loss attributable to common shareholders	(27,790)	(235)	(1,375)	(390)
Loss income per share-basic and diluted (cent)	(0.030)	0.000	(0.001)	0.000

The Group is an exploration company with limited revenue which is not material. The Group's (loss) / income and (loss) / income per share relate to the Group's operations during a particular period, and are not seasonal in nature.

Quarter 4 2014: At 31 December 2014, an impairment test was completed on the assets in the Hungarian cost pool. The test demonstrated that the estimated recoverable amount of the exploration and evaluation assets and property, plant and equipment in the pool was insufficient to cover the carrying amount of these assets. The principal impairment indicator was the Company's ability to finance future exploration to commercially develop the asset. The capitalised value of the Group's Hungarian assets was impaired by $26.5 million at 31 December 2014.

Quarter 1 2015: On 26 January 2015, the Group announced the expiry of the extension granted to NIS, regarding their three-well drilling programme in Falcon's Makó Trough Licence in Hungary. The July 2014 deadline for completion of drilling and testing of the three-well programme was extended by Falcon to 31 December 2014 to enable NIS to fulfil its three well obligation. NIS had only drilled and tested two wells.

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Quarter 1 2015: On 27 January 2015 Falcon granted incentive stock options ("**Options**") to purchase an aggregate of 6 million 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 2014. The options were granted at an exercise price of CDN$0.15 (a 26% premium to the closing share price on 23 January 2015) to the following:

	Number of Options granted	**Total number of Options held after grant**
John Craven - Former Director	1,000,000	4,100,000
Philip O'Quigley - CEO	2,000,000	8,000,000
Michael Gallagher - CFO	3,000,000	3,300,000
Total	**6,000,000**	**15,400,000**

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

Quarter 2 2015: On 29 May 2015, the Group announced that drilling operations had commenced on its initial three well fully funded drilling campaign in the Beetaloo Basin. Civil works on the first well, "Kalala S-1" were under way. Kalala S-1 is located within exploration permit 98.

Quarter 3 2015: On 15 July 2015, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 is the first of Falcon's fully funded and uncapped, 2015 three well drilling and evaluation programme in the Beetaloo Basin.

On 1 September 2015 Falcon announced that drilling operations had successfully concluded on the Kalala S-1 well. Results encountered were encouraging, with the well drilled to a total depth ("**TD**") of 2,619 metres.

On 8 September 2015 Falcon announced the spudding of the second well, Amungee NW-1 well in the Beetaloo Basin, Australia. The well is located approximately 25 kilometres east of the first well drilled, Kalala S-1.

Quarter 4 2015: On 22 October 2015 it was announced that drilling operations successfully concluded on the Amungee NW-1 well. Results encountered are very encouraging, with the well drilled to a TD of 2,611 metres.

Following the encouraging results of the first two wells, it was decided to bring forward the drilling of the first horizontal well in the Beetaloo Basin, originally planned for the end of 2016, into October-November 2015.

On 18 November 2015 Falcon announced the successful conclusion of drilling operations on the Amungee NW-1H horizontal well. Total measured depth was 3,808 metres, including 1,100 metres horizontal section in the "B Shale" interval of the Middle Velkerri Formation.

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

Quarter 1 2016: On 18 January 2016 Falcon announced that on 15 January 2016 it granted incentive stock options ("**Options**") to purchase an aggregate of 38,700,000 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 9 December 2015.

The Options were granted at an exercise price of CDN$0.11 being the closing share price on the TSX Venture Exchange on 15 January 2016. The following directors and officers were granted Options:

Name	Number of Options granted	Total number of Options held after grant
JoAchim Conrad – Non- Executive Chairman	4,000,000	4,700,000
Philip O'Quigley – CEO	12,000,000	20,000,000
Michael Gallagher - CFO	6,000,000	9,300,000
Daryl Gilbert – Non- Executive Director	2,500,000	3,200,000
Greg Smith – Non- Executive Director	2,500,000	3,200,000
Dr. György Szabó – Non Executive Director	2,500,000	4,000,000
John Craven - Former Director	2,500,000	6,300,000
Maxim Mayorets – Non- Executive Director	2,500,000	2,500,000

The Options granted have a vesting schedule which allowed for 1/3 of the Options to vest immediately with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 14 January 2018. The Options have an expiry date of 14 January 2021.

Quarter 2 2016: On 28 April 2016 Falcon provided a technical and operational update for its operations in the Beetaloo Basin, Australia. On 22 June 2016 Falcon provided a further operational update for Australia.

Quarter 3 2016: On 25 July 2016 Falcon announced the successful re-entry and casing of Amungee NW-1H horizontal well and the spudding of the Beetaloo W-1 vertical well in the Beetaloo Basin, Australia.

On 14 September 2016 Falcon provided a technical and operational update on the successful conclusion of drilling operations on the Beetaloo W-1 well along with the completion of the hydraulic stimulation of the horizontal Amungee NW-1H well. Falcon also noted the statement made by Chief Minister Michael Gunner, of the newly elected Northern Territory Government, relating to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia.

On 29 September 2016 Falcon provided a technical update regarding the hydraulic stimulation of the horizontal Amungee NW-1H well in the Beetaloo Basin, Australia.

Quarter 4 2016 to date: On 12 October 2016 Falcon announced that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, Australia.

For further details of 2016 updates please refer to the Beetaloo basin, Northern Territory, Australia – Current Activity section of this document.

Generally, the Group's total assets, exploration and evaluation costs, working capital and total shareholders' equity fluctuate in proportion to one another until such time as the Group completes additional financing.

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LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended 31 December 2015, the Group incurred additional losses of $0.2 million, had operating cash outflows of $3.4 million and a retained deficit of $382.6 million. For the nine months ended 30 September 2016, the Group incurred losses of $2.9 million, had operating cash outflows of $2 million and had a retained deficit of $385.5 million.

As at 30 September 2016 the Group had cash and cash on deposit of $10.6 million.

Giving due consideration to the cash requirements of the Group, the Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing this financial information which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Working Capital

Cash and cash on deposit as at 30 September 2016 was $10.6 million, a decrease of $2.1 million from $12.7 million as at 31 December 2015. Working capital as at 30 September 2016 decreased to $10 million from working capital of $11.5 million as at 31 December 2015.

The decrease to cash and cash equivalents was the result of net cash used in investing activities of $1.8 million and net cash used in operating activities of $2 million.

Accounts Receivable

Current accounts receivable as at 30 September 2016 were $0.2 million, which includes $0.1 million receivable and prepayments of $0.1 million.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at 30 September 2016 were $0.6 million which includes $0.1 million for accounts payable and $0.5 million accrued expenditures.

Capital Expenditures

For the period ended 30 September 2016 the following expenditure commitments exist.

Australia - Beetaloo Basin, Northern Territory, Australia

The Group is conducting a nine well drilling programme with its farm-out partners. The details are as follows:

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

The completion dates for each of the respective phases outlined above will be revised following discussions between Origin and the DPIR, which will take place soon. This is due to the introduction of a moratorium on hydraulic fracturing.

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

As at 30 September 2016, the Group's cumulative expenditures for the Production License and Exploration Licenses, including the acquisition, seismic testing, drilling of exploratory wells, and initial testing and completion of wells, was approximately $245 million.

The Group is not planning any independent technical operations in Hungary, and as such no material capital expenditures are expected.

Lease commitments

The Group has the following lease agreements for office space in:

- Budapest, Hungary which expires in July 2018; and
- Dublin, Ireland, which expires in April 2021, with a break clause exercisable in April 2019.

The Groups future minimum rental commitments under non-cancelable operating leases at 30 September 2016 and 31 December 2015 were as follows:

	As at 30 September 2016 $'000	As at 31 December 2015 $'000
2016	**12**	115
2017	**46**	97
2018	**43**	5
Thereafter	**9**	-
Total	**110**	217

Debt and Equity Capital

The availability of debt and equity capital, and the price at which additional capital could be issued will be dependent upon the success of the Group's exploration activities, and upon the state of the capital markets generally.

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DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at 30 September 2016 and 25 November 2016:

Class of securities	**30 September 2016**	**25 November 2016**
Common shares	921,537,517	921,537,517
Stock options	49,100,000	45,100,000
Hess warrant	10,000,000	10,000,000
Fully diluted common shares	980,637,517	976,637,517

LEGAL MATTERS

The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.

TRANSACTION WITH NON - ARMS LENGTH PARTIES AND RELATED PARTY TRANSACTIONS

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

Senzus Kft
On 1 January 2013, Senzus Kft. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The agreement was terminated on 28 April 2015. A separate agreement was entered into on 28 April 2015, which expired on 31 March 2016. The contract was renewed with an effective date of 1 April 2016. Senzus Kft. was paid a consultancy fee of $77,664 during the period ended 30 September 2016 (2015: $49,527).

Oakridge Financial Management Inc.
The Group has engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canadian Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc. The Group has incurred costs of approximately CDN$473 (2015: CDN$630) to Oakridge Financial Management Inc. during the period ended 30 September 2016.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company does not have any off-balance sheet arrangements, other than operating leases (as disclosed on page 27 in this document) and payments with regards overriding royalties as disclosed within section "Overriding Royalty Beetaloo Basin exploration permits" on page 8. The Company has no proposed transactions.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Derivative financial instruments

Derivatives (including embedded derivatives) are initially recognised at fair value of the date a derivative contract is entered into and subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designated any derivatives as hedges as at 30 September 2016 or 31 December 2015.

The Group's financial instrument is a warrant. The Group has not entered into any contract for "other instruments" during 2016. The Group has no "other instruments" as at 30 September 2016 or 31 December 2015.

Warrants

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

The fair value of the warrant and the incentive stock options granted to employees is calculated using a Black Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of incentive stock options that vest.

The composition of the derivative liabilities as at 30 September 2016 and 31 December 2015, and the changes therein for the periods then ended, are as follows:

	Hess Warrant $'000	**Total $'000**
At 1 January 2015	514	514
Derivative gain - unrealised – outstanding warrant	(79)	(79)
At 31 December 2015	435	435
Derivative gain - unrealised – outstanding warrant	(231)	(231)
At 30 September 2016	**204**	**204**

The terms of the warrant are as follows:

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

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

NEW ACCOUNTING PRONOUNCEMENTS

The Interim Condensed Consolidated Financial Statements ("**Interim Statements**") of the Group have been prepared in accordance with IAS 34 'Interim Financial Reporting' and, 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 2015 (pages 9 to 14) as filed on the Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

There are no amended accounting standards or new accounting standards that have any significant impact on the 30 September 2016 interim statements.

BUSINESS RISKS AND UNCERTAINTITIES

Risks and uncertainties that could cause the actual results to materially differ from current expectations have not changed from those disclosed in the Company's AIF dated 28 April 2016.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates that could cause the Company's actual results to materially differ from current expectations have not changed from those disclosed in the Company's MD&A and Consolidated Financial Statements for the year ended 31 December 2015.

MANAGEMENT'S RESPONSIBILITY FOR MD&A

The information provided in this MD&A is the responsibility of management. In the preparation of this MD&A, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in this MD&A.

The audit committee has reviewed the MD&A with management, and has approved the MD&A as presented.

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