Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Three and Nine Months Ended 30 September 2019

(Presented in U.S. Dollars)

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INTRODUCTION

The following management's discussion and analysis (the "**MD&A**") was prepared as at 21 November 2019 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 three and nine months ended 30 September 2019. This MD&A should be read in conjunction with the unaudited interim financial statements for the three and nine months ended 30 September 2019 and 2018 and the audited consolidated financial statements and MD&A for the year ended 31 December 2018 and 2017.

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 2019 and 2018.

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 2018 dated 24 April 2019 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; 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; introduction of a moratorium; 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; need to obtain regulatory approvals before development commences; environmental risks and hazards and cost of compliance with environmental regulations; aboriginal claims; 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; uncertainties inherent in estimating quantities of reserves and resources; the need to obtain required approvals from regulatory authorities; drilling wells is speculative, often involving significant costs that may be more than estimated and may not result in any discoveries and the other factors considered under "**Risk Factors**" in Falcon's AIF dated 24 April 2019. 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
6	*Overview of the business and overall performance - About the Group* This section of the document contains forward looking statements regarding the strategy of the Board of Directors of Falcon (the "**Board**") and the countries it believes support the exploitation of unconventional oil and gas.	The countries the Group operates support the exploitation of unconventional oil and gas.	These countries may change their regulatory environment, adversely impacting the exploitation of unconventional oil and gas resources.
7	*Overview of the business and overall performance – Beetaloo Sub-basin, Northern Territory, Australia - Overview* "the Beetaloo Sub-basin …… is a relatively underexplored onshore exploration basin. The area is also remote and sparsely populated…. the Board believes the Beetaloo Sub-basin has shale oil and shale gas potential."	The Beetaloo Sub-basin is relatively under-explored and has shale oil and shale gas commercial potential.	As the Beetaloo Sub-basin is relatively under-explored it may not have shale oil and shale gas commercial potential.
7-8	*Beetaloo Sub-basin, Northern Territory, Australia –Transformational Farm out of Beetaloo unconventional acreage* This section of the document contains forward-looking statements pertaining to the work programme, expectations and bringing the project toward commerciality.	The work programme will continue and the project will be brought towards commerciality.	The risks are (1) Origin determines not to continue with the work programme and /or (2) the project is not brought to commerciality.
8-12	*Beetaloo Sub-basin, Northern Territory, Australia – Discoveries and prospectivity* This section details results of drilling to date and Origin Energy B2 Pty Ltd.'s ("**Origin**") notification of discovery and an initial report on discovery ("**Notification of Discovery**") submission to the Department of Primary Industry and Resources of the Northern Territory ("**DPIR**") on the Amungee NW-1H well and the contingent gas resource estimate they prepared.	A discovery has been made and a material gas resource announced, the Beetaloo Sub-basin will continue to be explored.	Despite the Notification of Discovery and the announcement of a material gas resource, commerciality may not be reached.
9-10	*Beetaloo Sub-basin, Northern Territory, Australia – Discoveries and prospectivity* This section of the document from "Key Details of the Discovery Evaluation Report……. royalties over the permits" includes details of what was submitted to the Northern Territory Government which indicated an original gas in place ("**OGIP**") of 496 trillion cubic feet ("**TCF**") over 16,145km^2. The section also includes Origin's gross contingent resource estimate of 6.6TCF over 1,968km^2.	The OGIP and contingent gas resource calculated are the best estimates based on the drilling results to date and other data (including seismic) available.	The OGIP and contingent gas resource are only estimates and the project may not be brought to commerciality.
11	*Beetaloo Sub-basin, Northern Territory, Australia – Discoveries and prospectivity - Further information relating to the disclosure of contingent gas resource estimates* This section of the document which includes the table beginning with "Well Name……to demonstrate that the project is technically feasible, and a development plan has been generated, economics can be run to determine commerciality of production." contains forward looking statements.	Work with our joint venture partner, Origin will continue, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.	The risks are (1) there may be undue delay in obtaining all necessary approvals for the drilling and stimulation of the wells which would adversely impact the work programme and /or (2) the project is not brought to commerciality.

Page No.	Forward looking statements	Assumptions	Risk factors
13-14	*Beetaloo Sub-basin, Northern Territory, Australia – Current Activity* This section of the document contains forward looking statements relating to the Group's activities in the Beetaloo Sub-basin.	The Group has assumed that the drilling programme will continue as planned.	The risks are (1) Origin determines not to continue with the work programme and /or (2) the project is not brought to commerciality.
15	*Karoo basin, South Africa – Fiscal Terms* "In September 2018, the Mineral and Petroleum Resources Development Amendment Bill ("**MPRDA Bill**"), the long-delayed draft legislation for the mining and petroleum industries was withdrawn. There are now plans to come up with separate laws to govern the two sectors. The MPRDA Bill touched on several contentious issues such as requirements for local processing of minerals and free-carry provisions on discoveries."	The awarding of the exploration right over the acreage is estimated to occur in 2020.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.
26	*Liquidity and Capital resources – Going Concern* "….have 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.	The Group may not have cash available to meet unforeseen expenses as and when they fall due.
26-27	*Liquidity and capital resources – Capital Expenditures – Australia – Beetaloo Sub-basin, Northern Territory, Australia* This section of the document from "Originally the Group indicated.…….with drilling operations at this well site due to commence in September 2019."	The work programme will occur as expected and the project will be brought towards commerciality.	The risks are (1) the work programme does not continue and /or (2) the project is not brought to commerciality.

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 exploration and development of unconventional 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 in Australia and Hungary.

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. The carrying value at 30 September 2019 of the Company's interest in Australia is $40.2 million, while the Hungarian asset is nil due to a determination in 2014 that the estimated recoverable amount was insufficient to cover the carrying value of the asset. For the South African interest, costs associated with the technical cooperation permit 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).

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 Sub-basin, Northern Territory, Australia)	30[(i)]	Origin [(iii)]	Exploration	1,891.3
Exploration Permit EP-98 (Beetaloo Sub-basin, Northern Territory, Australia)	30[(i)]	Origin [(iii)]	Exploration	10,316.0
Exploration Permit EP-117 (Beetaloo Sub-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 as (the **"Farminees**") on 21 August 2014. On completion, Origin was appointed as operator of the exploration permits. On 5 May 2017, it was announced that Origin had acquired Sasol's interest, bringing its overall interest to 70% in the Beetaloo Exploration Permits.

<u>Beetaloo Sub-basin, Northern Territory, Australia</u>

Overview

Falcon Australia is one of the two registered holders of approximately 4.6 million gross acres (~ 18,619 km^2), 1.4 million net acres, of three exploration permits in the Beetaloo Sub-basin, Northern Territory, Australia. The Beetaloo Sub-basin is located 600 kilometres south of Darwin, close to infrastructure including a highway, a pipeline 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 Sub-basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Sub-basin covers approximately 8.7 million acres (~ 35,260 km^2) and is a relatively underexplored onshore exploration basin. The area is also remote and sparsely populated. Considering all these factors, the Board believes the Beetaloo Sub-basin has shale oil and shale gas potential.

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 and Northern Land Council 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 Sub-basin exploration permits" for details) to other parties. Falcon Australia is subject to Commonwealth Government corporation tax of 30%, however where the entity has aggregated annual turnover of less than A$25 million for the financial year Falcon Australia would be considered a 'base rate entity' for Australian tax purposes and would be taxed at a lower rate of 27.5%. Falcon Australia is also subject to the Commonwealth Government's Petroleum Resource Rent Tax ("**PRRT**") levied at the rate of 40% on 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 Sub-basin exploration permits
On 1 November 2013, it was announced that Falcon Australia had entered an agreement (**"CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% overriding royalty interest ("**ORRI**") relating to its exploration permits. On 17 December 2013, it was announced that Falcon Australia had entered an agreement (**"TOG Agreement"**) with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire 7% (seven eighths) of their 8% private ORRI over the Beetaloo Sub-basin exploration permits. 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 farm–out with Origin and Sasol in August 2014. The Group 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 of $20 million to Falcon Australia and Origin in proportion to their interest, leaving a 1% royalty in private hands.

CRIAG was adjudicated bankrupt on 21 March 2017 following which Falcon and Origin approached the liquidator of CRIAG (the "**Liquidator**") with a view to terminating the ORRI. On 3 October 2018 Falcon announced that they and Origin had signed a termination agreement with the Liquidator and paid CHF150,000 (approximately US$151,000) to the Liquidator and the 1% ORRI was terminated.

On **23 April 2019** it was announced that Falcon Australia had successfully negotiated a two-year extension of the call option up to and including 31 August 2021 ("the **Extension**"), to acquire it's 30% portion of the 2% ORRI from the TOG Group. The Extension was submitted to the Northern Territory government, Australia for review and registration, with confirmation of registration received from the Northern Territory government on 1 August 2019. Following confirmation of registration, Falcon Australia paid $500,000 to the TOG Group for granting the Extension, with the cost of exercising the call option increasing from $4.5 million to $7.5 million.

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 Sub-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 to pay for the full cost of completing the first five wells estimated at A$64 million, and to 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 approximately A$50 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.

On **5 May 2017**, it was announced that Origin had acquired Sasol's 35% interest in the Beetaloo joint venture. The transaction did not impact Falcon's 2014 farm-out agreement detailed above, as Origin assumed 100% of the future costs of the farm-out. Sasol departed the Joint Venture to focus its capital investment on its African and North American footprint.

On **16 August 2018**, Falcon announced it had signed an agreement to amend the farm-out Agreement with Origin to deem Stage 1 of the exploration and appraisal drilling programme in the Beetaloo Sub-basin complete and to commence Stage 2, with an A$15 million increase to the Stage 2 capped expenditure.

Stage 1 Early Completion
Under the terms of the 2014 Agreements, the joint venture parties ("**JV**") drilled three vertical wells and one hydraulic fracture stimulated horizontal well. The JV agreed that, following the success of the fracture stimulated horizontal well in 2016, accelerating into the Stage 2 horizontal drilling programme is far more beneficial than fracture stimulating the final vertical well under Stage 1. The formal completion of Stage 1 is subject to government approval.

Stage 2 - A$15 million Cost Cap Increase
With the removal of the fracture stimulation of the vertical well and accelerating the commencement of Stage 2, Origin agreed to increase the Stage 2 expenditure by A$15 million, to approximately A$65 million for the exploration and appraisal programme. Any portion of the A$15 million increase not utilised during Stage 2 will transfer to the Stage 3 capped expenditure, which currently stands at A$48 million.

Stage 2 Exploration and Appraisal Drilling Program
The JV has agreed to evaluate the potential of the liquid-rich gas fairways in both the Kyalla and Velkerri plays. Exploration and appraisal activities planned for 2019 include the drilling of one vertical well and the drilling and hydraulic fracture stimulation of two horizontal wells. Preparations for this drilling program has started. This will allow for the assessment of three plays, including the Velkerri B dry gas play discovered in 2016, so that the most commercially prospective play can be targeted during Stage 3.

Stage 3 Early Capital Commitments
The Stage 2 exploration and appraisal drilling programme will determine the most commercially prospective play to be targeted during Stage 3. The JV has agreed to the early commitment of Stage 3 capital expenditure during 2019, allowing for an efficient transition from Stage 2 to Stage 3, where Origin and Falcon agree to proceed to Stage 3.

The Group had expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The moratorium on hydraulic fracturing has delayed the completion of the drilling and exploration programme. Work has commenced in 2019, drilling results to date are included on page 14.

Discoveries and Prospectivity
Work was previously undertaken by a Rio Tinto subsidiary company, Sweetpea Petroleum Pty Ltd. ("**Sweetpea**"), Hess Australia (Beetaloo) Pty. Ltd ("**Hess**") and Falcon Australia. Sweetpea drilled the Shenandoah-1 vertical well, which was deepened by Falcon Australia. Hess acquired 3,490 kilometres of 2D seismic data. The seismic database, along with existing well data, provided a solid platform to extrapolate a detailed structural and stratigraphic model for the Beetaloo Sub-basin, concluding the Beetaloo Sub-basin is an active petroleum system.

2015 saw the commencement of the work programme with the drilling of three wells, Kalala S-1 to a total depth ("**TD**") of 2,619 metres, Amungee NW-1 to a TD of 2,611 metres and the first horizontal well, Amungee NW-1H to a

TD of 3,808 metres, including a 1,100 metre horizontal section. In 2016, the Beetaloo W-1 well was drilled to a TD of 3,173 metres and the horizontal Amungee NW-1H well was hydraulic stimulated.

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 Sub-basin and on **15 February 2017** it was announced that Origin had submitted the Results of Evaluation of the Discovery and Preliminary Estimate of Petroleum in Place for the Amungee NW-1H Velkerri B Shale Gas Pool ("**Discovery Evaluation Report**") to the Northern Territory Government.

The submission followed the completion of extended production testing at the Amungee NW-1H exploration well of the "B Shale" member of the Middle Velkerri formation.

In addition, Origin undertook a resource study based on the Amungee NW-1H well results and other key wells in the Beetaloo Sub-basin including regional seismic data to determine a best estimate ("**2C**") contingent gas resource estimate for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117.

Key Details of the Discovery Evaluation Report
The Discovery Evaluation Report was submitted in compliance with Section 64 of the Northern Territory Petroleum Act (2016) and as per the Reporting a Petroleum Discovery Guideline. It followed the initial submission of the Notification of Discovery in October 2016. The Report provides the following volumetric estimates and recovery / utilisation factors for the B Shale member of the Middle Velkerri formation within permits EP76, EP98, and EP117.

Middle Velkerri B Shale Volumetric Estimates as of 15 February 2017 ([1])		
	Gross	**Net Attributable ([2])**
	Best Estimate	**Best Estimate**
Area km^2 ([3])	16,145	4,751
Original Gas In Place ("**OGIP**") (TCF)([4])	496	146
Combined Recovery / Utilisation Factor ([5])	16%	16%
Technically Recoverable Resource (TCF)	85	25
OGIP Concentration (BCF/km^2) ([6])	31	31

[1] The Report and estimates included in the table above were not prepared in accordance with the Canadian Oil and Gas Evaluation Handbook ("**COGEH**")
[2] Falcon's working interest is 29.43%, net attributable numbers do not incorporate royalties over the permits
[3] Area defined by a depth range at a maturity cut-off consistent with the dry gas window within the Beetaloo JV Permits (EP79, EP98, EP117)
[4] Trillion cubic feet
[5] The combined recovery/utilization factor range was applied stochastically to the OGIP range to calculate the range of technically recoverable resource within the Beetaloo JV permits.
[6] Billion cubic feet per square kilometre

Understanding the factors controlling deliverability and recovery as well as spatial variation within the gas play/shale pool are in their infancy. A quantitative assessment of the aggregated estimated recoverable resource of the gas play that can handle these complexities will require a statistically significant number of wells testing the gas play. As there is only a single production test within the gas play Origin decided upon a qualitative assessment approach instead to estimate the technically recoverable resource. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

Factors considered in the qualitative assessment of technically recoverable hydrocarbon resource in the gas play were the stimulated rock volume recovery factor range, the subsurface utilization factor range and surface utilization factor range.

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<u>Origin's Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117</u>
Origin also prepared a contingent resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data.

Assessment of 2C Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117 as of 15 February, 2017[1]

Measured and Estimated Parameters	Units	Best Estimate
Area [2]	km^2	1,968
OGIP [3]	TCF	61.0
Gross Contingent Resource[4]	TCF	6.6
Net Contingent Resource[4,5]	TCF	1.94

[1] Contingent resource estimates were prepared on a statistical aggregation basis and in accordance with the Society of Petroleum Engineers Petroleum Resources Management System ("**SPE-PRMS**"). SPE-PRMS was developed by an international group of reserves evaluation experts and endorsed by the World Petroleum Council, the American Association of Petroleum Geologists, the Society of Petroleum Evaluation Engineers, and the Society of Exploration Geophysicists. Contingent resource estimates are those quantities of gas (produced gas minus carbon dioxide and inert gasses) that are potentially recoverable from known accumulations but which are not yet considered commercially recoverable due to the need for additional delineation drilling, further validation of deliverability and original gas in place, and confirmation of prices and development costs. If the estimates were to be prepared in accordance with COGEH, Falcon is highly confident that there would be no change to the contingent resource estimates above.
[2] P50 area from the Contingent Resource area distribution
[3] OGIP presented is the product of the P50 Area by the P50 OGIP per km^2
[4] Estimated gas contingent resource category of 2C. There is no certainty that it will be commercially viable to produce any portion of the resources
[5] Net to Falcon's 29.43% working interest in EP76, EP98, and EP117, the net contingent resource number does not incorporate royalties over the permits

As noted in Origin's press release the "*The contingent resource estimates contained in [their] report are based on, and fairly represents, information and supporting documentation that have been prepared by Alexander Côté who is a full-time Origin employee and a Qualified Reserves and Resource Evaluator. Mr Côté is a registered professional engineer with specialised unconventional gas resource characterisation and development experience. Mr Côté has consented to the form and context in which these statements appear*". Mr Côté is a member of the Association of Professional Engineers and Geoscientists of Alberta.

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Further information relating to the disclosure of the contingent gas resource estimates

Well Name	Amungee NW-1H
Permit / location	EP98 (onshore Beetaloo Sub-basin Northern Territory, Australia)
Working interest in well	Falcon 29.43%
Product type	Shale gas
Geological rock type of formation drilled	Organic rich shale (mudstone and siltstone)
Depth of zones tested	~2170-2190 metres below sea level
Type of test	Production test following hydraulic fracture stimulation
Hydrocarbon phases recovered	Gas (Approximate composition: methane ~92%, ethane+ ~3%, carbon dioxide and inerts ~5%)
Flow rates and volumes	Average rate (57 days): 1.1 MMscf/d, Final production rate: 1.07 MMscf/d, Cumulative production: 63 MMscf
Number of fracture stimulation stages	11 stages (average size ~ 100 ton per stage)
Risks and level of uncertainty with recovery of resources	Risks and uncertainties include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, completing longer-duration production testing above the 57 days conducted on Amungee NW-1H, reducing well costs with scale of activity, establishing gas sales agreements and building infrastructure to connect the resource to market. Contingent on the moratorium being lifted, additional appraisal drilling is planned (as per the work program associated with the permits), along with hydraulic fracture stimulation and testing to assess deliverability and move the project towards commercialisation.
Significant positive and negative factors relevant to the estimate	Significant positive factors relevant to the estimate of the contingent resources include the successful well test at Amungee NW-1H which produced enough gas to surface to be of commercial interest; core and log data from Amungee NW-1H, Beetaloo W-1, Kalala S-1, Tanumbirini-1, McManus-1, Altree-2 and Walton-2 provide convincing evidence of a significant volume of moveable hydrocarbons; and the Marcellus Shale (Pa., USA) and Barnett Shale (Tx., USA) are analogous, commercially-productive fields that are similar to the Velkerri B Shale reservoir. Significant negative factors include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, the limited number of wells on the Company's acreage, lack of a developed service sector providing uncertainty regarding estimates of capital and operating costs, developing hydrocarbon regulations and environmental legislation and the requirement to obtain social acceptability for oil and gas operations.
Commerciality	Currently this project is based on a conceptual study. The economic status is undetermined at this time. The contingent resources will continue to be assessed as additional appraisal wells are drilled and tested in order to better evaluate the commercial potential of the play. After a sufficient number of wells have been drilled to demonstrate that the project is technically feasible and a development plan has been generated, economics can be run to determine commerciality of production.

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On **21 February 2018**, Falcon announced that Origin had presented a technical paper on the potential of the Kyalla formation in the Beetaloo Sub-basin at the Australia Exploration Geoscience Conference (AEGC) in Sydney. The key conclusions by Origin were the following:

- Reservoir and geomechanical analysis acquired at the Beetaloo W-1 well indicate the presence of two potential Source Rock Reservoir ("**SRR**") intervals; the middle Kyalla SRR and the lower Kyalla SRR.
- Geomechanical properties of the lower Kyalla SRR suggest it has the greater potential and could be conducive to successful hydraulic fracture stimulation.
- Development of the lower Kyalla SRR, if viable, could have significant cost advantages over that of the middle Velkerri SRR due to expected lower drilling costs.
- Mudgas and core analysis indicate the reservoir is likely to be wet gas which could also improve the economics considerably.
- There is also the possibility that a successful lower Kyalla SRR test could lead to a 'stacked' play development with the middle Velkerri SRR. Infrastructure sharing synergies, with a greater portion of centralised infrastructure, could result in significant cost savings and an optimised surface footprint.
- Further appraisal work is required to determine the deliverability of the identified Kyalla SRRs.

On **15 May 2018** Origin presented a technical paper, headlined - "Australia's premier shale basin: 5 plays 1,000,000,000 years in the making", at the Australian Petroleum Production and Exploration Association ("APPEA") Conference. The key findings are summarised as follows:

Origin has identified four additional potential plays in the Beetaloo Sub-basin in addition to the existing and explored Velkerri shale dry gas play, namely;

- Velkerri shale liquids rich gas play,
- Kyalla shale and hybrid liquids rich gas plays, and
- Hayfield sandstone oil/condensate play.

The Velkerri shale dry gas remains the most materially and technically mature resource. Origin stated, "as such, the Beetaloo provides the JV with a diversified portfolio of material multi-TCF plays, each with the potential to redefine Australia's energy market."

<u>Velkerri shale liquids rich gas play</u>

- Located along the northern and south-eastern flanks of the Beetaloo Sub-basin.
- Indications that porosity and permeability are higher in these areas.
- Gas composition and maturity modelling indicate a possible condensate to gas ratio ("CGR") in the region of 5-40 bbl/MMscf.
- A horizontal fracture stimulated well is required to assess technical viability.

<u>Kyalla shale and hybrid lithology liquids rich gas play</u>

- Two related liquid rich gas play types have been identified for further appraisal:
  - shale play targets, and
  - hybrid play targets.
- Prospective areas are interpreted to be confined to the JV's permits.
- There is likely a cost advantage over the Velkerri shale dry gas play as it is shallower.
- Liquid yields could be in the range of 15-60 bbl/MMscf.
- Additional work is required to rank these plays for further appraisal.

<u>Hayfield sandstone oil/condensate play</u>

- Interpreted as a thin but regionally extensive sandstone confined to the north of the JV permits.
- Strong wet gas shows in the Amungee NW-1 and other regional wells suggest the presence of liquid hydrocarbons without significant formation water.
- The Hayfield Sandstone is a tight sandstone with a significant secondary porosity network (but low matrix permeability) and potentially the presence of open, uncemented, hydrocarbon filled natural fractures.
- Anticipated to have the highest liquid yields and lowest well costs that could contribute to improved economics of a stacked play development.
- Success will be dependent on the combination of system permeability and resource density.
- Would require a horizontal fracture stimulated well to assess the technical viability of the play.

Northern Territory Government Moratorium

On 14 September 2016, Chief Minister Michael Gunner of the Northern Territory introduced a moratorium on hydraulic fracturing in the Northern Territory and a scientific inquiry into hydraulic fracturing was duly established. On **27 March 2018**, Falcon noted the publication of the Final Report by the scientific inquiry into hydraulic fracturing.

Justice Rachel Pepper noted in Community Update #31 that the overall conclusion is that risk is inherent for the onshore shale gas industry, however if all of the recommendations are implemented, the identified risks associated with any onshore shale gas industry can be mitigated or reduced to an acceptable level, and in some cases, the risks can be eliminated.

Summary of Final Report

The summary of the Final Report provided the following conclusion:

"No industry is completely without risk, and the development of any onshore shale gas industry in the NT [Northern Territory] is no exception. But having considered the latest and best-available scientific data from a wide range of sources, and noting the recent and continuing technological improvements in the extraction of onshore shale gas, the conclusion of this Inquiry is that the challenges and risks associated with any onshore shale gas industry in the NT can be appropriately managed by, among other things:

- *releasing land that is environmentally, socially and culturally appropriate for use for shale gas development;*
- *mandating world-leading engineering standards for the construction, maintenance and de-commissioning of all onshore shale gas wells and for the extraction of shale gas by hydraulic fracturing;*
- *implementing new technologies where relevant as soon as they become available;*
- *requiring the comprehensive monitoring and reporting of all aspects of onshore shale gas operations with real-time public scrutiny of the resulting data;*
- *implementing area (regional) based approval processes;*
- *the completion of a SREBA [strategic regional environmental and baseline assessment] before production to gather essential baseline data prior to any onshore shale gas industry being developed;*
- *insisting on a standalone comprehensive SIA [social impact assessment] for each onshore shale gas project;*
- *ensuring that traditional Aboriginal owners and Aboriginal communities are properly and comprehensively consulted about all aspects (positive and negative) of any onshore shale gas project on or affecting their country;*
- *ensuring that the regulator is truly independent and that laws protecting the environment are properly enforced with sufficiently stringent sanctions for non-compliance;*
- *ensuring greater access to justice;*
- *reforming the current regulatory framework governing onshore shale gas development in the NT to strengthen transparency and accountability of all decision-making;*
- *introducing full fee recovery to fund the necessary regulatory reforms and to ensure that strong oversight is maintained; and*
- *ensuring that all of the recommendations contained in this Report are implemented in full.*

Of course, nothing is guaranteed. And with any new industry, it is not uncommon for problems to emerge. However, it is the Panel's opinion that, provided that all of the recommendations made in this Report are adopted and implemented in their entirety, not only should the risks associated with an onshore shale gas industry be minimised to an acceptable level, in some instances, they can be avoided altogether."

On **17 April 2018** Falcon welcomed the decision by the Northern Territory ("**NT**") government to lift the moratorium on hydraulic fracturing.

Current Activity

On **21 January 2019**, Falcon announced that Origin had signed a rig contract with Ensign Australia Pty Ltd. for Rig 963 for the 2019 Stage 2 Beetaloo drilling programme, with an option to extend the contract into 2020.

On **23 April 2019** it was announced that Falcon Australia had successfully negotiated an Extension of the call option to acquire it's 30% portion of the 2% ORRI from the TOG Group. Full details are included on page on page 7.

On **3 May 2019** Falcon announced that the Environmental Management Plan ("**EMP**") for the Kyalla 117 N2 Exploration well for the planned 2019 drilling, stimulation, and well testing prepared by Origin had been accepted for assessment by the Northern Territory Department of Environment and Natural Resources ("**DENR**").

The EMP's 28-day consultation period opened from 3 May 2019 and was published on the DENR website. The EMP provides detail on how Origin will ensure the environmental impacts and risks associated with its activities are reduced to a level that is as low as reasonably practicable and acceptable. The EMP has been prepared with reference to regulatory obligations and relevant Inquiry recommendations that have underpinned the Code of Practice for Petroleum Activities in the Northern Territory.

On **31 July 2019** Falcon noted the operational update on the Beetaloo Sub-Basin provided by Origin Energy Limited as part of their June 2019 Quarterly Production Report, which read as follows:

Preparatory work ongoing in the Beetaloo. Two horizontal appraisal wells planned in CY2019:
- Kyalla liquids rich gas play - water extraction licence in place, drilling approval anticipated in August. Water bores drilled and access road and well pad construction nearing completion.
- Velkerri liquids rich gas play – water extraction licence in place, water bore and access roads approved, awaiting well pad civils and drilling approval.

On **22 August 2019** Falcon noted that the EMP for the Kyalla 117 N2 horizontal well, for the planned 2019 drilling, stimulation, and well testing prepared by Origin on behalf of the JV, had been approved by DENR.

On **9 October 2019** Falcon announced the spudding of the Kyalla 117 N2-1 appraisal well in the Beetaloo Sub-Basin.

Highlights:
- Kyalla 117 N2-1 is the first well in the Stage 2 drilling programme to target the Kyalla shale liquids rich gas play.
- Located within Exploration Permit 117 approx. 32 kilometres north of the Beetaloo W-1 well.
- A vertical pilot hole will target a total vertical depth of approximately 1,750 metres into the Kyalla Formation.
- A subsequent horizontal section is planned for approximately 1,000 metres that will be drilled, completed, stimulated and production tested in the prospective Kyalla shale reservoir interval.
- Origin, as Operator, will drill the Kyalla 117 N2-1 well.

The principal objectives for the drilling of the Kyalla 117 N2-1 well are to:
- Penetrate the Kyalla Formation to assess hydrocarbon maturity, saturation and reservoir quality.
- Provide further information on the areal distribution of the Kyalla Formation.
- Collect data for subsequent horizontal drilling, completion, stimulation and production testing; including ability to flow liquids rich gas.

Formation evaluation, including reservoir characterisation, will be carried out through petrophysical interpretation, geo-mechanical studies and core analysis.

On **20 November 2019** Falcon announced that drilling of the vertical section of the Kyalla 117 N2-1 appraisal well in the Beetaloo Sub-Basin, Australia had been completed to a vertical TD of 1,895 metres.

Preliminary drilling data from the vertical section of the Kyalla 117 N2-1 appraisal well confirms:
- The continuation of the regionally pervasive Kyalla Fm between the Beetaloo W-1 and Amungee NW-1H wells.
- Elevated gas show with relatively high C_3, C_4 and C_5 components were observed across the carbonaceous shales.

Other work carried out as part of this drilling operation included:
- 45 metres of conventional coring was acquired in each of the Upper and Lower Kyalla reservoir sections.
- Sidewall cores and extensive wireline logging have been acquired.

Horizontal drilling, stimulation and testing:
- The JV is now preparing to drill the horizontal section within the Kyalla formation.
- Horizontal drilling will commence following the final evaluation of the vertical well results.
- Once completed, the horizontal section will be fracture stimulated, and production tested.
- The JV has prepared for continued operations during the wet season.

Karoo Basin, South Africa

Overview

The Company holds a TCP covering an area of approximately 7.5 million acres (~ 30,327 km^2), in the southwest Karoo Basin, South Africa. The TCP granted Falcon exclusive rights to apply for an exploration right over the underlying acreage, which they duly did in August 2010, submitting an application to the Petroleum Agency of South Africa ("**PASA**"). The Company also submitted an environmental management plan in January 2011 which was updated at the request of the PASA and submitted on 27 February 2015.

Technical Regulations

On 3 June 2015, the Minister of Mineral Resources (the "**Minister**") published the Regulations for Petroleum Exploration and Production, which prescribe various technical and environmental standards for onshore hydraulic fracturing. The promulgation of the regulations means exploration companies can conduct hydraulic fracturing if all necessary statutory approvals are in place.

However, on 18 October 2017, the Eastern Cape High Court held that the Minister lacked the authority to promulgate the Regulations for Petroleum Exploration and Production. The Minister indicated they would review the outcome of the High Court ruling and would decide on how to proceed. He also signaled South Africa remained committed to a shale gas industry and licenses could be issued in 2019. On 4 July 2019, the Supreme Court of Appeal upheld the decision of the High Court principally because the Minister of Mineral Resources was not authorised to make the regulations. The provision of the MPRDA on which the Minister relied to make the regulations had been repealed in 2013 and therefore no longer existed.

Fiscal Terms

In September 2018, the MPRDA Bill, the long-delayed draft legislation for the mining and petroleum industries was withdrawn. There are now plans to come up with separate laws to govern the two sectors. The MPRDA Bill touched on several contentious issues such as requirements for local processing of minerals and free-carry provisions on oil discoveries.

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 20%, but it may be reduced in terms of a Double Tax Agreement (if applicable) and is 0% in respect of dividends paid by an oil and gas company out of amounts attributable to its oil and gas income. The 20% rate is effective from 22 February 2017.

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

The overall Karoo Basin is approximately 173 million acres (~ 700,000 km^2), located in central and southern South Africa, containing thick, organic rich shales such as the Permian Whitehill formation. The Karoo describes a geological period lasting some 120 million years, covering the late Paleozoic to early Mesozoic interval periods. Rocks were deposited in a large regional basin, resulting in the build-up of extensive deposits. Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting, however in an independent report dated June 2013, the U.S. Energy Information Administration ("**EIA**") estimated there are 390 trillion cubic feet ("**Tcf**") of technically recoverable resources, ranking it fifth in the world after China, USA, Argentina and Mexico for shale gas potential. The Permian Ecca group contains three potential shales identified as having potential for shale gas, with the Whitehall Formation, in particular, considered ubiquitous, having a high organic content and deemed thermally mature for gas.

Current activity

The Board awaits the new legislation for the petroleum industry following the withdrawal of the MPRDA Bill in 2018 and the Board now estimates that awarding of an exploration right over the acreage could occur in 2020.

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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. 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.

Makó Production Licence
The Makó Production Licence was granted by the Hungarian Mining Authority over a gas exploration project in the Makó Trough, covering approximately 245,775 acres (~ 1,000 km^2), located in south-eastern Hungary. It is located approximately ten kilometres to the east of the largest producing field in Hungary, the Algyő field, owned and operated by the MOL Group. The area is transected by existing gas pipelines and infrastructure, including a 12 kilometre gas pipeline built by Falcon, offering transport and potential access to local markets and larger distribution centres for international markets.

Under the terms of the 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 to Prospect Resources Inc., the previous owners of the acreage.

Up to 31 December 2017 corporate profits were taxed at 19% on the part of the tax base which exceeded HUF500 million (approximately $1.8 million); below that level a reduced rate of 10% applied. From 1 January 2017, corporate income tax was reduced to a single rate of 9%, which is applicable to all levels of net income. 2009 saw the introduction of an additional profit based energy industry tax which is levied on energy supplying companies. 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:
- 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 between 2,300 and 3,500 metres deep. While wells have been drilled through the Algyő Play and encountered gas shows, none tested the shallow play at an optimal location, as they targeted the Deep Makó Trough. Multiple Algyő prospects have been 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, with NIS making a cash payment of $1.5 million to Falcon.

Only two of the three wells were drilled. Kútvölgy-1 reached TD of 3,305 metres, with the well 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 and the well was plugged and abandoned.

Well testing on Besa-D-1, the second well, were completed in November 2014. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated well production did not meet commercial rates and the well was plugged and abandoned. In December 2015, Falcon signed a termination agreement with NIS, with NIS paying $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. 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.

Current activity
Falcon has previously indicated it continues to review its operations in Hungary, evaluating all options available to the Group to deliver shareholder value. The Group maintains its 100% interest in the Máko Trough.

Alberta, Canada

For the period ended 30 September 2019, Falcon earned $4,000 (2018: $3,000) in revenue from its Alberta, 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 further exploration or development of these wells, nor are further material revenue and costs expected.

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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 and nine months ended 30 September 2019 and 2018 and, the audited consolidated financial statements for the year ended 31 December 2018 and 2017.

Management's Discussion and Analysis of financial condition and results of operations for the three months ended 30 September 2019 as compared to the three months ended 30 September 2018

The Company reported a net loss of $0.8 million for the three months ended 30 September 2019 as compared to a net loss of $0.09 million for the three months ended 30 September 2018. Changes between 2019 and 2018 were as follows:

	Three months ended 30 September		**Changes**	
	2019	**2018**		
	$'000	**$'000**	**$'000**	**%**
Revenue				
Oil and natural gas revenue	**1**	-	1	N/A
	1	-	1	N/A
Expenses				
Exploration and evaluation expenses	**(36)**	(35)	(1)	3%
Production and operating expenses	**(3)**	(3)	-	0%
Depreciation	**(1)**	-	(1)	N/A
General and administrative expenses	**(403)**	(436)	33	-8%
Share based compensation	**-**	(23)	23	-100%
Foreign exchange loss	**(89)**	(4)	(85)	2125%
	(532)	(501)	(31)	6%
Results from operating activities	**(531)**	(501)	(30)	6%
Fair value gain – outstanding warrant	**127**	414	(287)	-69%
Finance expense				
Interest income on bank deposits	**25**	37	(12)	-32%
Accretion of decommission provisions	**(57)**	(55)	(2)	4%
Net foreign exchange (loss) / gain	**(328)**	11	(339)	-3082%
	(360)	(7)	(353)	5043%
Loss and comprehensive loss	**(764)**	(94)	(670)	713%

Loss and comprehensive loss attributable to:

Equity holders of the company	**(758)**	(94)	(664)	706%
Non-controlling interest	**(6)**	-	(6)	N/A
Loss and comprehensive loss	**(764)**	(94)	(670)	713%

Oil and natural gas revenue
Oil and natural gas revenue of $1,000 (2018: $0) 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

	Three months ended 30 September		Change	
	2019	2018		
	$'000	$'000	$'000	%
Consulting, legal and other associated costs	**(9)**	(9)	-	0%
Well related costs	**(27)**	(26)	(1)	4%
	(36)	(35)	(1)	3%

Exploration and evaluation expenses relate to 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. Costs have remained relatively constant period on period with only a slight increase.

General and administrative expenses

	Three months ended 30 September		Change	
	2019	2018		
	$'000	$'000	$'000	%
Accounting and audit fees	**(28)**	(36)	8	-22%
Consulting fees	**(11)**	(12)	1	-8%
Legal fees	**(3)**	(9)	6	-67%
Investor relations	**(37)**	(60)	23	-38%
Office and administrative costs	**(53)**	(57)	4	-7%
Payroll and related costs	**(214)**	(205)	(9)	4%
Directors' fees	**(51)**	(51)	-	0%
Travel and promotion	**(6)**	(6)	-	0%
	(403)	(436)	33	-8%

General and administrative expenses decreased to $0.40 million in 2019 from $0.44 million in 2018. The main changes were as follows:

- Accounting and audit fees: Costs have decreased period on period due to management's on-going attention to costs containment.
- 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 for the three months ended 30 September 2019 in comparison with same period in 2018 relates to timing of costs associated with the AGM, coupled with a reduction in broker fees with the appointment of Cenkos as NOMAD and sole broker.
- Office and administrative expenses have decreased in the period due to a reduction in filing fees with the relevant stock.
- Travel and promotion have stayed constant in the current three-month period in comparison with the same three months in 2018. Certain levels of travel and promotion costs are due to the international geography of the Group's assets and investor base.

Share based compensation
The Group did not incur share based compensation expense in the three months ended 30 September 2019 compared to the same three months in 2018. In February 2017, 6 million options were granted, one third of which vested immediately with an additional one third vesting on each subsequent anniversary until they were fully vested in February 2019. There have been no stock option grants since 2017.

Foreign exchange loss
The foreign exchange loss recorded in operating expenses for the three months ended 30 September 2019 is attributed to unfavourable movements to the US Dollar since 30 June 2019. There were unfavorable movements to the US Dollar in the same three-month period in 2018.

Fair value gain – outstanding warrant
There is a decrease on the fair value gain of the outstanding warrant from the three months ended 30 September 2018 to the same period in 2019. The primary factor associated with this valuation was Falcon's share price (as quoted on the TSX-V), which moved from CDN31.5 cents at 30 June 2018 to CDN28.0 cents at 30 September 2018. For the same three months in 2019, Falcon's share price decreased from CDN21.5 cents at 30 June 2019 to CDN20.5 cents at 30 September 2019, resulting in a gain period on period.

Finance expense
The overall movement in finance expense period on period is related to unfavorable movements to the US Dollar during the three months ended 30 September 2019, compared to unfavourable movements in the same 3 months ended 30 September 2018. There was also a decrease in the interest income, which is driven by cash on deposit.

Loss attributable to non-controlling interest
The amounts reflected in 2019 and 2018 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Three months ended 30 September	
	2019	2018
	$'000	$'000
Net cash used in operating activities	**(558)**	(354)
Net cash generated from financing activities	**-**	110
Net cash (used in) / generated from investing activities	**(476)**	2,487
Change in cash and cash equivalents	**(1,034)**	2,243
Effect of exchange rates on cash & cash equivalents	**(252)**	19
Cash and cash equivalents at beginning of period	**14,465**	5,222
Cash and cash equivalents at end of period	**13,179**	7,484
Cash on deposit – maturity greater than three months	**-**	-
	13,179	7,484

Cash and cash equivalents have increased by $5.7 million to $13.2 million in 2019 from $7.5 million in 2018. The main changes were as follows:

- Net cash used in operating activities: The increase is due to the timing of payments and operational costs for certain activities in 2019.
- Net cash generated from financing activities: There was no cash movements in Q3 2019 for financing activities. Q3 2018 related to the proceeds from the exercise of share options.
- Net cash (used in) / generated from investing activities: The 2018 movement is due primarily to cash coming off deposit that had a maturity greater than three months before the period end date. 2019 relates to movements in exploration and evaluation assets during the period, offset by interest earned from cash on deposit.

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 and nine months ended 30 September 2019 and 2018 and, the audited consolidated financial statements for the year ended 31 December 2018 and 2017.

Management's Discussion and Analysis of financial condition and results of operations for the nine months ended 30 September 2019 as compared to the nine months ended 30 September 2018

The Company reported a net loss of $1.7 million for the nine months ended 30 September 2019 as compared to a net loss of $1.2 million for the nine months ended 30 September 2018. Changes between 2019 and 2018 were as follows:

	Nine months ended 30 September		**Changes**	
	2019	**2018**		
	$'000	**$'000**	**$'000**	**%**
Revenue				
Oil and natural gas revenue	**4**	3	1	33%
	4	3	1	33%
Expenses				
Exploration and evaluation expenses	**(185)**	(114)	(71)	62%
Production and operating expenses	**(9)**	(12)	3	-25%
Depreciation	**(1)**	(1)	-	0%
General and administrative expenses	**(1,305)**	(1,437)	132	-9%
Share based compensation	**(12)**	(104)	92	-88%
Foreign exchange loss	**(116)**	(76)	(40)	53%
	(1,628)	(1,744)	116	-7%
Results from operating activities	**(1,624)**	(1,741)	117	-7%
Fair value gain – outstanding warrant	**230**	641	(411)	-64%
Finance expense				
Interest income on bank deposits	**95**	68	27	40%
Accretion of decommission provisions	**(170)**	(165)	(5)	3%
Net foreign exchange loss	**(211)**	(46)	(165)	359%
	(286)	(143)	(143)	100%
Loss and comprehensive loss	**(1,680)**	(1,243)	(437)	35%

Loss and comprehensive loss attributable to:

Equity holders of the company	**(1,675)**	**(1,242)**	(433)	35%
Non-controlling interest	**(5)**	**(1)**	(4)	400%
Loss and comprehensive loss	**(1,680)**	**(1,243)**	(437)	35%

Oil and natural gas revenue
Oil and natural gas revenue of $4,000 (2018: $3,000) 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

	Nine months ended 30 September		Change	
	2019	**2018**		
	$'000	**$'000**	**$'000**	**%**
Consulting, legal and other associated costs	**(68)**	(28)	(40)	143%
Well related costs	**(117)**	(86)	(31)	36%
	(185)	(114)	(71)	62%

Exploration and evaluation expenses relate to 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. Costs have increased period on period due to maintenance work undertaken on the Hungarian wells and South African legal fees.

General and administrative expenses

	Nine months ended 30 September		Change	
	2019	**2018**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(88)**	(110)	22	-20%
Consulting fees	**(34)**	(38)	4	-11%
Legal fees	**(10)**	(20)	10	-50%
Investor relations	**(169)**	(160)	(9)	6%
Office and administrative costs	**(166)**	(192)	26	-14%
Payroll and related costs	**(623)**	(703)	80	-11%
Directors' fees	**(152)**	(153)	1	-1%
Travel and promotion	**(63)**	(61)	(2)	3%
	(1,305)	(1,437)	132	-9%

General and administrative expenses decreased to $1.3 million in 2019 from $1.4 million in 2018. The main changes were as follows:

- Accounting and audit fees: Costs have decreased period on period due to management's on-going attention to cost containment.
- 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 increase for the nine months ended 30 September 2019 in comparison with the same period in 2018 relates to the appointment of Cenkos as broker in Q4 2018 which resulted in additional costs on an overall basis for the nine months in 2019. In Q3 2019 brokers fees did reduce with the appointment of Cenkos as NOMAD and sole broker.
- Office and administrative expenses have decreased in the period due to a reduction in filing fees with relevant stock exchanges and reduced office and administrative costs in Hungary.
- Travel and promotion increased minimally in the nine months to 30 September 2019 in comparison with the comparative nine months to September 2018. 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 decreased in the nine months ended 30 September 2019 compared to the same nine months in 2018. In February 2017, 6 million options were granted, one third of which vested immediately with an additional one third vesting on each subsequent anniversary until they were fully vested in February 2019. There have been no stock option grants since 2017.

Foreign exchange loss
The foreign exchange loss recorded in operating expenses for the nine months ended 30 September 2019 and the same period in 2018 is attributed to unfavourable movements to the US Dollar since 31 December 2018. There were unfavourable movements in the nine month period from 31 December 2017 to 30 September 2018.

Fair value gain – outstanding warrant
There was a fair value gain for the nine months ended 30 September 2019 similar to gain for the same period in 2018. The primary factor associated with the 2018 valuation was Falcon's share price (as quoted on the TSX-V), which moved from CDN31.5 cents at 31 December 2017 to CDN28.0 cents at 30 September 2018. For the similar nine months in 2019, Falcon's share price decreased from CDN22.0 cents at 31 December 2018 to CDN20.5 cents at 30 September 2019, resulting in the recorded fair value gain for the nine month period to 30 September 2019.

Finance expense
The overall movement in finance expenses period on period is driven by unfavourable movements to the US Dollar.

Loss attributable to non-controlling interest
The amounts reflected in 2019 and 2018 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Nine months ended 30 September	
	2019	2018
	$'000	$'000
Net cash used in operating activities	**(1,501)**	**(1,644)**
Net cash generated from financing activities	**8,433**	**167**
Net cash (used in) / generated from investing activities	**(420)**	**6,020**
Change in cash and cash equivalents	**6,512**	**4,543**
Effect of exchange rates on cash & cash equivalents	**(300)**	**(26)**
Cash and cash equivalents at beginning of period	**6,967**	**2,967**
Cash and cash equivalents at end of period	**13,179**	**7,484**
Cash on deposit – maturity greater than three months	**-**	**-**
	13,179	**7,484**

Cash and cash equivalents have increased by $5.7 million to $13.2 million in 2019 from $7.5 million in 2018. The main changes were as follows:

- Net cash used in operating activities: The decrease is due to the timing of payments and operational costs for certain activities in 2019.
- Net cash generated from financing activities: The 2019 total relates to the raising of equity in the period while the 2018 total relates to the proceeds of share options exercised.
- Net cash (used in) / generated from investing activities: The 2018 movement is due primarily to cash coming off deposit that had a maturity greater than three months before the period end date. The 2019 movement relates to movement in exploration and evaluation assets offset by interest income generated from cash on deposit.

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 2018**	**31 March 2019**	**30 June 2019**	**30 September 2019**
Total assets	49,099	48,634	56,626	55,742
Exploration and evaluation assets	39,705	39,707	39,719	40,220
Working capital	5,966	5,035	13,610	12,503
Total shareholders' equity	37,196	36,164	44,724	43,966

For the three months ended:	**31 December 2018**	**31 March 2019**	**30 June 2019**	**30 September 2019**
Revenue	12	2	1	1
(Loss) / income	(139)	(1,045)	129	(764)
(Loss) / income attributable to common shareholders	(139)	(1,044)	127	(758)
(Loss) / (income) per share-basic and diluted (cent)	(0.000)	(0.001)	0.000	(0.001)

As of:	**31 December 2017**	**31 March 2018**	**30 June 2018**	**30 September 2018**
Total assets	51,259	50,869	49,938	49,704
Exploration and evaluation assets	39,630	39,630	39,656	39,706
Working capital	6,793	6,189	5,959	6,008
Total shareholders' equity	38,284	37,688	37,274	37,313

For the three months ended:	**31 December 2017**	**31 March 2018**	**30 June 2018**	**30 September 2018**
Revenue	-	1	2	-
Loss	(5)	(655)	(494)	(94)
Loss attributable to common shareholders	(5)	(655)	(493)	(94)
Loss per share-basic and diluted (cent)	(0.000)	(0.001)	(0.001)	(0.000)

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

Quarter 4 2017: General and administrative ("**G&A**") and exploration and evaluation **("E&E")** expenses continued to decrease due to the continued focus on managing costs by the Group.

There was a decrease in the share based compensation expense in 2017 relative to 2016 due to the vesting schedule of the 38.7 million options granted in 2016.

There were foreign exchange gains in 2017 relative to the losses incurred in 2016 due to favourable movements to the US dollar during the year.

Quarter 1 - 4 2018: G&A expenses increased due to higher filing fees due to the improved market capitalisation of the Group throughout 2017 driven by the positive news relating to Falcon's Australian E&E asset, further increases related to investor related expenses with the appointment of RBC Capital Markets as joint broker.

E&E expenses continued to decrease period on period due to the continued focus on managing costs by the Group.

There was a decrease in the share based compensation expense relative to 2017 due to the vesting schedule of the stock options granted in previous years. There were no grants of stock options during 2018.

There were fair value gains on the outstanding warrants for Q2, Q3 and Q4 of $283k, $414k and $443k respectively, due to movement in the share price during the year.

Quarter 1 2019

E&E expenses remained consistent period on period due to the continued focus on managing costs by the Group.

G&A expenses decreased due to reduced payroll costs for the period relative to the same three months of 2018. This decrease was offset by increased investor related expenses with the appointment of Cenkos as joint broker in the latter part of 2018, along with increased legal fees.

Share-based compensation expenses decreased relative to 2018, due to the vesting schedule of the stock options granted in previous years.

There was a fair value loss on the outstanding warrants due to favourable movement in the share price during the period.

Quarter 2 2019

E&E expenses increased due to maintenance work undertaken on the Hungarian wells and South African legal expenses.

There were foreign exchange gains due to favourable movements against the US Dollar.

The Group incurred a fair value gain on the outstanding warrants due to a decrease in the share price during the three-month period.

Quarter 3 2019

There were foreign exchange losses due to unfavourable movements against the US Dollar.

Due to unfavourable movements in the share price during the period there was a fair value gain on the outstanding warrants.

For further details of 2019 updates please refer to the Beetaloo Sub-basin, Northern Territory, 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 unless the Group completes financing. On 17 May 2019 the Company completed a Placing and raised gross proceeds of c. £7 million (c.$9 million) as detailed on page 28.

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LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended 31 December 2018, the Group incurred losses of $1.4 million, had operating cash outflows of $2.2 million and a retained deficit of $391.6 million. For the nine months ended 30 September 2019, the Group incurred losses of $1.7 million, had operating cash outflows of $1.5 million, financing cash inflows of $8.4 million and had a retained deficit of $393.2 million.

As at 30 September 2019 the Group had cash and cash on deposit of $13.2 million.

It was noted in the MD&A for the year ended 31 December 2018 ("**2018 MD&A"**), dated 24 April 2019, the Group's cash and cash deposits were sufficient to cover ongoing operating costs for the 12 months from the date of signing the 2018 year-end financial statements. Work had recommenced on the Group's Beetaloo Sub-basin asset in the Northern Territory Australia, with the Group having entered Stage 2 of the work programme, with a Cost Cap of approximately A$65 million, and costs above the Cost Cap to be financed by the Group in accordance with their 30% participating interest. It was further noted that the Directors and Management were confident that should funding be required it could be raised through either an equity raise or debt funding. As at the date of the 2018 MD&A no such further funding had been raised and there was no certainty that sufficient funds could be raised if required, indicating the existence of a material uncertainty, which could cast significant doubt over the Group's ability to continue as a going concern, being unable to realise its assets and discharge its liabilities in the normal course of business. The 2018 financial statements did not include adjustments that would result if the Group was unable to continue as a going concern as the Board had a reasonable expectation that the Group would have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continued to adopt the going concern basis in preparing the financial information for the year ended 31 December 2018.

On 17 May 2019 the Company completed a Placing and raised gross proceeds of c.£7 million (c.$9 million), further details of which are included at page 28. Having given due consideration to the cash requirements of the Group as at the date of these financial statements, with Falcon's net cash contribution to the first c.$115 million of gross capex for Stage 2 and Stage 3 estimated at c.$12 million, the Directors and Management continue to be confident that should funding be required it could be raised through either an equity raise or debt funding and the Board continues to have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the interim condensed consolidated financial statements for the three and nine months ended 30 September 2019 and 2018 do not include adjustments that would result if the Group was unable to continue as a going concern as 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 2019 was $13.2 million, with movement of $6.2 million from $7 million as at 31 December 2018. Working capital as at 30 September 2019 increased to $12.5 million from working capital of $6 million as at 31 December 2018.

The increase to cash and cash equivalents was the result of net cash generated from financing activities of $8.4 million, offset by net cash used in operating activities of $1.5 million and net cash used from investing activities of $0.4 million.

Accounts Receivable

Current accounts receivable as at 30 September 2019 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 2019 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 2019 the following expenditure commitments exist.

Australia - Beetaloo Sub-Basin, Northern Territory, Australia

The Group planned a 9 well drilling programme which commenced in 2015 with its farm-out partners. The details were as follows:

- Farminees to pay the full cost of completing the first five wells estimated at A$64 million, funding any cost overruns.
- Farminees 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.
- 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.

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 need to be financed by the Group in accordance with their 30% participating interest. Stage 2 of the work programme has commenced with the Kyalla 117 N2 well was spudded in October 2019. As at the date of this MD&A, Falcon's net cash contribution to the first c.$115 million of gross capex for Stage 2 and Stage 3 is estimated at c.$12 million.

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. Drilling commenced with the spudding of the Kyalla 117 N2 well in October 2019, further details on drilling results to date are included on page 14.

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 2019, 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 a lease agreement for office space in Dublin, Ireland, which expires in April 2021. The Group's future minimum rental commitments under non-cancelable operating leases at 30 September 2019 and 31 December 2018 were as follows:

	As at 30 September 2019 $'000	As at 31 December 2018 $'000
The next year	**38**	38
Years two through five combined	**57**	86
Beyond five years	**-**	-
Total	**95**	124

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.

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

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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 2019 and 21 November 2019:

Class of securities	**30 September 2019**	**21 November 2019**
Common shares	981,847,425	981,847,425
Stock options	40,333,334	40,333,334
Warrant	10,000,000	10,000,000
Fully diluted common shares	1,032,180,759	1,032,180,759

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 Plus Tanácsadó Bt.
On 1 March 2017, Senzus Plus Tanácsadó Bt. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The contract was subsequently terminated with effect on 28 February 2018. There was no consultancy fee for the period ended 30 September 2019 (2018: $9,700).

Geoportal Plus Tanácsadó Bt.
On 1 March 2018, *Geoportal Plus Tanácsadó Bt*. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. It was paid a consultancy fee of $26,215 for the period ended 30 September 2019 (2018: $18,430).

Oakridge Financial Management Inc.
The Group previously engaged Oakridge Financial Management Inc. ("Oakridge") to assist in submitting returns to the Canada Revenue Agency ("CRA"). Mr. Greg Smith, a current director of Falcon, is the sole shareholder of Oakridge. Oakridge no longer provides assistance for returns submitted to the CRA, therefore the Group did not incur costs during the period ended 30 September 2019 (2018: CDN$472).

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 Sub-basin exploration permits" on page 7. The Company has no proposed transactions.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Derivative financial instruments

Derivatives (including embedded derivatives) are initially recognized at fair value of the date a derivative contract is entered into and subsequently re-measured at their fair value. The method of recognizing 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 2019 or 31 December 2018. The Group's sole financial instrument is a warrant. The Group has not entered into any contract for "other instruments" during 2019. The Group has no "other instruments" as at 30 September 2019 or 31 December 2018.

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 2019 and 31 December 2018, and the changes therein for the periods then ended, are as follows:

	Warrant $'000
At 1 January 2018	1,563
Derivative gain - unrealised – outstanding warrant	(1,084)
At 31 December 2018	479
Derivative gain - unrealised – outstanding warrant	**(230)**
At 30 September 2019	**249**

The terms of the warrant are as follows:

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

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

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.

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 2018 (pages 10 to 16) 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 2019 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 24 April 2019.

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 2018 and 2017.

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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