Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Year Ended 31 December 2018

(Presented in U.S. Dollars)

Table of Contents

INTRODUCTION

The following management's discussion and analysis (the "**MD&A**") was prepared as at 24 April 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 months and year ended 31 December 2018. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2018 and 2017.

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 contained herein 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; 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 Energy B2 Pty Ltd.'s ("**Origin**") determines not to continue with the work programme and /or (2) the project is not brought to commerciality.
8-11	*Beetaloo Sub-basin, Northern Territory, Australia – Discoveries and prospectivity* This section details results of drilling to date and Origin's 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.	The work programme will continue after legislative changes have been made to give effect to the recommendations from the scientific inquiry into hydraulic fracturing and the project will be brought towards commerciality.	The risks are (1) there may be undue delay by the government in implementing the recommendations from the inquiry 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
12-14	*Beetaloo Sub-basin, Northern Territory, Australia – Current Activity* This section of the document contains forward looking statements relating to the Group's activities and drilling results to date in the Beetaloo Sub-basin.	The Group has assumed that the drilling and exploration 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.
13	*Beetaloo Sub-basin, Northern Territory, Australia – Current Activity - Northern Territory Government Moratorium* This section of the document contains statements relating to the moratorium introduced by the Northern Territory Government in 2016 and subsequent updates from the scientific inquiry into hydraulic fracturing and the final decision from the Northern Territory Government.	The work programme will continue after legislative changes have been made to give effect to the recommendations from the scientific inquiry into hydraulic fracturing and the project will be brought towards commerciality.	There may be undue delay by the government in implementing the recommendations from the inquiry which could adversely impact the work programme.
15	*Karoo basin, South Africa* "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." *Note: In the MD&A for 3 and 9 months ended 30 September 2018 the Group indicated that the Board expected that the exploration right over the acreage would be awarded in 2019.*	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.
27	*Liquidity and Capital resources – Going Concern* "….has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future."	The Group is a going concern.	The Group may not have cash available to meet unforeseen expenses as and when they fall due.
27-28	*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 targeted to commence in June 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 31 December 2018 of the Company's interest in Australia is $39.7 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. Falcon's Common Shares are traded on Toronto's TSX Venture Exchange ("**TSX-V**") (symbol: FO.V); AIM, a market operated by the London Stock Exchange (symbol: FOG) and Euronext Growth, a market regulated by the Irish Stock Exchange pls, trading as Euronext Dublin (symbol: FAC).

Summary of Operations

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

Assets (Country)	**Interest (%)**	**Operator**	**Status**	**Gross Area (km^2)**
Exploration Permit EP-76 (Beetaloo 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 licence in August 2010. Local counsel has confirmed that despite the TCP having an expiry date of October 2010, the Company's interests remain valid and enforceable.

(iii) Falcon completed its farm-out with Origin and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), collectively referred to herein as (the **"Farminees"**) on 21 August 2014. On completion, Origin was appointed as operator of the exploration permits. On 5 May 2017, it was announced that Origin had acquired Sasol's 35% interest, bringing its overall interest to 70% in the Beetaloo Exploration Permits.

Beetaloo Sub-basin, Northern Territory, Australia

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 developing 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
In 2013 Falcon Australia entered an agreement (**"CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% overriding royalty interest ("**ORRI**") relating to its exploration permits. In December 2013, Falcon Australia 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 will be submitted to the Northern Territory government, Australia for review, approval and registration if required. Falcon Australia will pay US$500,000 to the TOG Group for granting the Extension, with the cost of exercising the call option increasing from US$4.5 million to US$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 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 A$53 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A$48 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees may reduce or surrender their interests back to Falcon Australia only after:
  - The drilling of the first five wells; or
  - The drilling and testing of the subsequent two horizontally fracture stimulated wells.

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. Details of the announcement were as follows:

Stage 1 Early Completion
The joint venture ("**JV**") agreed that, following the success of the fracture stimulated horizontal well in 2016, accelerating into the Stage 2 horizontal drilling programme was far more beneficial than fracture stimulating the final vertical well under Stage 1.

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. 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 however commenced at some well sites, including water bore drilling and water monitoring, with drilling targeted to commence in June 2019.

Discoveries and Prospectivity
Work was previously undertaken by a Rio Tinto Group 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 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. 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 (EP76, 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.

[This part of the page was left blank intentionally]

Origin's Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117

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.

[This part of the page was left blank intentionally]

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.

[This part of the page was left blank intentionally]

Current Activity

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 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

In September 2016, the Northern Territory introduced a moratorium on hydraulic fracturing 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 NT government to lift the moratorium on hydraulic fracturing. Resumption of field work with Origin to start as soon as practical, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.

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 a A$15 million increase to the Stage 2 Cost Cap. Full details are on page 8.

On **3 October 2018**, Falcon announced that the JV had signed a termination agreement with the Liquidator of CRIAG and paid CHF150,000 (approximately US$151,000) to the Liquidator and the 1% ORRI had been terminated.

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.

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 meant exploration companies could 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.

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 370 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, considered ubiquitous, having a high organic content and deemed thermally mature for gas.

Cooperation agreement
In December 2012, Falcon entered a cooperation agreement with Chevron Business Development South Africa Limited ("**Chevron**") to jointly seek unconventional exploration opportunities and obtain exploration rights in the Karoo Basin over a period of five years, subject to the parties mutually agreeing participation terms applicable to each right. As part of the agreement, Chevron made a cash payment to Falcon of $1 million in February 2013, as a contribution to past costs. The cooperation agreement terminated in December 2017 at the end of the five-year exclusivity period.

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 that awarding of an exploration right over the acreage could occur in 2020.

.

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.

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**"), a company 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, was 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 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 year ended 31 December 2018, Falcon earned $15,000 (2017: $7,000) 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.

[This part of the page was left blank intentionally]

SELECTED ANNUAL INFORMATION

(In thousands of $ unless otherwise indicated)	2018	2017	2016
For the year ended 31 December:			
Revenues	15	7	6
Net loss	(1,382)	(3,996)	(3,690)
Basic & diluted - Loss per share - $	(0.001)	(0.004)	(0.004)
Cash dividend per share	Nil	Nil	Nil
At 31 December:			
Total assets	49,099	51,259	52,127
Non-current liabilities	10,102	9,886	9,690

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

For the twelve months of 2016 management continued to focus on cost containment and incurred losses of $3.7 million, which included a share-based compensation charge of $1.3 million.

For the twelve months of 2017 the Group incurred losses of $4 million, which included a fair value loss on outstanding warrants for $1.3 million (2016: fair value gain of $200,000) and a share-based compensation charge of $686,000.

For the twelve months of 2018 the Group incurred losses of $1.4 million, which included a fair value gain on outstanding warrants for $1.1 million (2017: fair value loss of $1.3 million) and a share-based compensation charge of $126,000. Management continues to review costs and reduce where possible.

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

[This part of the page was left blank intentionally]

RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with 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 31 December 2018 as compared to the three months ended 31 December 2017

The Company reported a loss of $139,000 for the three months ended 31 December 2018 as compared to a net loss of $5,000 for the three months ended 31 December 2017. Changes between 2018 and 2017 were as follows:

	Three months ended 31 December		Changes	
	2018	2017		
	$'000	$'000	$'000	%
Revenue				
Oil and natural gas revenue	**12**	-	12	N/A
	12	-	12	N/A
Expenses				
Exploration and evaluation expenses	**(43)**	(67)	24	-36%
Production and operating expenses	**-**	(7)	7	-100%
Depreciation	**-**	(2)	2	-100%
General and administrative expenses	**(472)**	(487)	15	-3%
Share based compensation	**(22)**	(136)	114	-84%
Foreign exchange (loss) / gain	**(20)**	36	(56)	-156%
	(557)	(663)	106	-16%
Results from operating activities	**(545)**	(663)	118	-18%
Fair value gain – outstanding warrants	**443**	634	(191)	-30%
Finance (expense) / income				
Interest income on bank deposits	**50**	67	(17)	-25%
Accretion of decommission provisions	**(56)**	(49)	(7)	14%
Net foreign exchange (loss) / gain	**(31)**	6	(37)	-617%
	(37)	24	(61)	-254%
Loss income before taxation	**(139)**	(5)	(134)	2680%
Taxation	**-**	-	-	N/A
Loss income and comprehensive loss	**(139)**	(5)	(134)	2680%
Equity holders of the company	**(139)**	(4)	(135)	3375%
Non-controlling interest	**-**	(1)	1	-100%
Loss and comprehensive loss	**(139)**	(5)	(134)	2680%

Oil and natural gas revenue
Oil and natural gas revenue of $12,000 (2017: $0) consists of the sale of natural gas and royalties 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 31 December 2018 $'000	2017 $'000	Change $'000	%
Consulting, legal and other associated costs	**(10)**	(8)	-2	25%
Well related costs	**(33)**	(59)	26	-44%
	(43)	(67)	24	-36%

Exploration and evaluation expenses represent recurring maintenance and landowners' costs in maintaining and safeguarding the Group's Hungarian wells along with exploration costs associated with the Group's TCP in South Africa. The decrease in costs quarter on quarter is primarily attributable to a reduction in payroll and well maintenance costs in Hungary and the non-recurrence of costs associated with the Company's TCP in 2018.

Depreciation
The three months ended 31 December 2018 and 31 December 2017 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office.

General and administrative expenses

	Three months ended 31 December 2018 $'000	2017 $'000	Change $'000	%
Accounting and audit fees	**(30)**	(36)	6	-17%
Consulting fees	**(11)**	(14)	3	-21%
Legal fees	**(4)**	(5)	1	-20%
Investor relations	**(77)**	(38)	(39)	103%
Office and administrative costs	**(59)**	(52)	(7)	13%
Payroll and related costs	**(203)**	(264)	61	-23%
Directors' fees	**(50)**	(51)	1	-2%
Travel and promotion	**(38)**	(27)	(11)	41%
	(472)	(487)	15	-3%

General and administrative expenses decreased by $15,000 to $0.47 million in 2018 from $0.49 million in 2017.

The main changes were as follows:

- Accounting and audit fees: The decrease is due to the on-going focus on cost containment by management during the year.
- Consulting and legal fees: The overall decrease is due to the on-going focus on cost containment by management during the year.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. The increase of the three months ended 31 December 2018 in comparison with the three months ended 31 December 2017 relates to the appointment of RBC Capital Markets and Cenkos Securities Plc as joint brokers to Falcon.
- Office and administrative costs have increased in the period due to increased filing fees with the relevant stock exchanges. Filing fees are driven by the Group's share price which had favourable movements in 2017 due to the positive news on the Group's Australian exploration asset, leading to increased 2018 filing fees.
- Travel and promotion increased in the current three-month period in comparison with the comparative three months to December 2017. Certain levels of travel and promotion are required due to the international geography of the Group's assets and investor base.

Share based compensation
Share based compensation expense decreased for the three months ended 31 December 2018 compared to the same period in 2017. In February 2017, six million options were granted, one third of which vested immediately with an additional one third vesting on each subsequent anniversary until they are fully vested in February 2019. There was no similar grant in 2018. The current period expense relates to options granted in previous years.

Foreign exchange (loss) / gain
The foreign exchange loss recorded in operating expenses for the three months ended 31 December 2018 is attributed to unfavorable movements to the US dollar since 30 September 2018. For the same three-month period in 2017 there were favorable movements to the US dollar.

Fair value gain – outstanding warrants
There is a decrease on the fair value gain from the three months ended 31 December 2017 to the three months ended 31 December 2018. The primary factor associated with this valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN39.5 cents at 30 September 2017 to CDN31.5 cents at 31 December 2017. For the similar three months in 2018, the valuation movement was driven by the decrease in the share price from CDN28.0 cents at 30 September 2018 to CDN22.0 cents at 31 December 2018.

Finance (expense) / income
The movement is primarily due to unfavourable movements to the US Dollar during the three months period ended 31 December 2018, coupled with a decrease in interest income received from bank deposits period on period.

Loss attributable to non-controlling interest
The amounts reflected in 2018 and 2017 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Three months ended 31 December	
	2018 $'000	**2017 $'000**
Net cash used in operating activities	**(537)**	(550)
Net cash generated by / (used in) investing activities	**51**	(5,961)
Net cash generated from financing activities	**-**	37
Change in cash and cash equivalents	**(486)**	(6,474)
Effect of exchange rates on cash & cash equivalents	**(31)**	8
Cash and cash equivalents at beginning of period	**7,484**	9,433
Cash and cash equivalents at end of period	**6,967**	2,967
Cash on deposit – maturity greater than three months	**-**	6,028
	6,967	8,995

Cash and cash equivalents have decreased by $517k to $7 million in the three months ended 31 December 2018, while for the same period in 2017 cash and cash equivalents decreased $6.5 million. The main changes were as follows:

- Net cash used in operating activities: There was a decrease for the three-month period in 2018 relative to the same period in 2017. The decrease is due to the timing of payments.
- Net cash generated by / (used in) investing activities: The 2018 movement is primarily due to increase in interest generated in Q4 2018. Q4 2017 movement related to cash being placed on deposit with a maturity greater than three months at 31 December 2017 and thereby classified as cash on deposit.
- Net cash generated from financing activities: The 2017 figure relates to the exercise of share options during the fourth quarter of 2017, there was no similar exercise during Q4 2018.

RESULTS OF OPERATIONS

Management's Discussion and Analysis of financial condition and results of operations for the year ended 31 December 2018 as compared to year ended 31 December 2017

The Company reported a loss of $1.4 million for the year ended 31 December 2018 compared to a loss of $4.0 million for the year ended 31 December 2017. Changes between 2018 and 2017 were as follows:

	Year ended 31 December		**Changes**	
	2018	**2017**		
	$'000	**$'000**	**$'000**	**%**
Revenue				
Oil and natural gas revenue	**15**	7	8	114%
	15	7	8	114%
Expenses				
Exploration and evaluation expenses	**(159)**	(245)	86	-35%
Production and operating expenses	**(10)**	(18)	8	-44%
Depreciation	**(1)**	(4)	3	-75%
General and administrative expenses	**(1,909)**	(1,975)	66	-3%
Share based compensation	**(126)**	(686)	560	-82%
Foreign exchange (loss) / gain	**(96)**	253	(349)	-138%
	(2,301)	(2,675)	374	-14%
Results from operating activities	**(2,286)**	(2,668)	382	-14%
Fair value gain/ (loss) – outstanding warrants	**1,084**	(1,336)	2420	-181%
Finance income				
Interest income on bank deposits	**118**	117	1	1%
Accretion of decommission provisions	**(221)**	(193)	(28)	15%
Net foreign exchange (loss) / gain	**(77)**	84	(161)	-192%
	(180)	8	(188)	-2350%
Loss before taxation	**(1,382)**	(3,996)	2,614	-65%
Taxation	**-**	-	-	N/A
Loss and comprehensive loss	**(1,382)**	(3,996)	2,614	-65%
Loss and comprehensive loss attributable to:				
Equity holders of the company	**(1,381)**	(3,994)	2,613	-65%
Non-controlling interest	**(1)**	(2)	1	-50%
Loss and comprehensive loss	**(1,382)**	(3,996)	2,614	-65%

Oil and natural gas revenue
Oil and natural gas revenue of $15,000 (2017: $7,000) consists of the sale of natural gas and royalties from the Hackett Interest in Alberta, Canada. The Group has not yet realised significant revenue from its planned operations elsewhere.

Exploration and evaluation expenses

	Twelve months ended 31 December		Change	
	2018	**2017**		
	$'000	**$'000**	**$'000**	**%**
Consulting, legal and other associated costs	**(38)**	(47)	9	-19%
Well related costs	**(121)**	(198)	77	-39%
	(159)	(245)	86	-35%

Exploration and evaluation expenses represent recurring maintenance and landowners' costs in maintaining and safeguarding the Group's Hungarian wells along with exploration costs associated with the Group's TCP in South Africa. The decrease in costs year on year is primarily attributable to a reduction in payroll and well maintenance costs in Hungary and the non-recurrence of costs associated with the Company's TCP in 2018.

Depreciation
The year ended 31 December 2018 and 31 December 2017 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office.

General and administrative expenses

	Year ended 31 December		Change	
	2018	**2017**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(140)**	(126)	(14)	11%
Consulting fees	**(49)**	(68)	19	-28%
Legal fees	**(24)**	(20)	(4)	20%
Investor relations	**(237)**	(141)	(96)	68%
Office and administrative costs	**(251)**	(219)	(32)	15%
Payroll and related costs	**(906)**	(1,075)	169	-16%
Directors' fees	**(203)**	(223)	20	-9%
Travel and promotion	**(99)**	(103)	4	-4%
	(1,909)	(1,975)	66	-3%

General and administrative expenses decreased by $66,000 in the twelve months from December 2017 to December 2018. The main changes were as follows:

- Accounting and audit fees: The movement is attributed to the release of a once off accrual in 2017 which was not required in 2018, coupled with unfavourable foreign exchange movements for certain fees.
- Consulting and legal fees: The overall fees have reduced year on year due to the on-going focus on cost containment by management during the year.
- 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 twelve months ended 31 December 2018 in comparison with same period for 2017 relates to appointment of RBC Capital Markets and Cenkos Securities Plc as joint brokers of Falcon.
- Office and administrative expenses have increased in the year due to increased filing fees with the relevant stock exchanges. Filing fees are driven by the Group's share price which had favourable movements in 2017 due to the positive news on the Group's Australian exploration asset, leading to increased 2018 filing fees.
- Travel and promotion decreased in the current twelve-month period over the comparative twelve months. Certain levels of travel and promotion are required due to the international geography of the Group's assets and investor base.

Share based compensation
Share based compensation expense decreased in the year ended 31 December 2018 compared to the same period in 2017. In January 2016, 38.7 million options were granted, one third of which vested immediately, with an additional one third vesting on each subsequent anniversary and were fully vested in January 2017. In February 2017, six million options were granted, one third of which vested immediately, with an additional one third vesting on each subsequent

anniversary until they are fully vested in February 2019. There was no similar grant in 2018. The current expense relates to options granted in previous years.

Foreign exchange (loss) / gain
The foreign exchange loss recorded in operating expenses for the year ended 31 December 2018 is attributed to unfavorable movements to the US dollar since 31 December 2017. The foreign exchange gain for the year 31 December 2017 was primarily attributed to the strengthening Euro relative to the US dollar in the twelve-month period.

Fair value gain / (loss) – outstanding warrants
There was a fair value gain for the twelve months ended 31 December 2018 relative to a loss for the same period in 2017. The primary factor associated with the 2017 and 2018 valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN9.0 cents at 31 December 2016 to CDN31.5 cents at 31 December 2017. For the twelve-month period to 31 December 2018 the gain was associated with Falcon's share price moving from CDN31.5 cents at 31 December 2017 to CDN22.0 cents at 31 December 2018.

Finance (expense) / income
The overall movements 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 2018 and 2017 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Year ended 31 December	
	2018	2017
	$'000	$'000
Net cash used in operating activities	**(2,181)**	(2,040)
Net cash generated by / (used in) investing activities	**6,071**	(1,653)
Net cash generated by financing activities	**167**	717
Change in cash and cash equivalents	**4,057**	(2,976)
Effect of exchange rates on cash & cash equivalents	**(57)**	86
Cash and cash equivalents at beginning of period	**2,967**	5,857
Cash and cash equivalents at end of period	**6,967**	2,967
Cash on deposit – maturity greater than three months	**-**	6,028
	6,967	8,995

Cash and cash equivalents have increased by $4.0 million to $7 million in 2018 from $3 million in 2017, while cash on deposit decreased by $6 million. The main changes were as follows:

- Net cash used in operating activities: The 2018 increase is primarily due to increased investor related costs and filing fees.
- Net cash generated by / (used in) investing activities: The 2018 movement is due primarily to cash coming off deposit which had a maturity greater than three months.
- Net cash generated from financing activities: This relates to the exercise of share options during 2018 and 2017 respectively.

[This part of the page was left blank intentionally]

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 March 2018**	**30 June 2018**	**30 September 2018**	**31 December 2018**
Total assets	50,869	49,938	49,704	49,099
Exploration and evaluation assets	39,630	39,656	39,706	39,705
Working capital	6,189	5,959	6,008	5,966
Total shareholders' equity	37,688	37,274	37,313	37,196

For the three months ended:	**31 March 2018**	**30 June 2018**	**30 September 2018**	**31 December 2018**
Revenue	1	2	-	12
Loss	(655)	(494)	(94)	(139)
Loss attributable to common shareholders	(655)	(493)	(94)	(139)
Loss per share-basic and diluted (cent)	(0.001)	(0.001)	(0.000)	(0.000)

As of:	**31 March 2017**	**30 June 2017**	**30 September 2017**	**31 December 2017**
Total assets	52,164	51,890	51,681	51,259
Exploration and evaluation assets	39,618	39,630	39,630	39,630
Working capital	7,289	7,130	6,610	6,793
Total shareholders' equity	38,662	38,607	38,115	38,284

For the three months ended:	**31 March 2017**	**30 June 2017**	**30 September 2017**	**31 December 2017**
Revenue	3	2	2	-
Loss	(2,955)	(266)	(770)	(5)
Loss attributable to common shareholders	(2,954)	(266)	(770)	(5)
Loss per share-basic and diluted (cent)	(0.003)	(0.000)	(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. Factors that have impacted the Group's results during these quarterly periods presented above include:

Quarter 1 2017: There was a significant movement in the fair value of the outstanding warrant in 2017. The (loss)/gain is predominately driven by Falcon's share price which increased relative to 2016 due to the positive results relating to the Group's Australian exploration and evaluation **("E&E")** asset in the Beetaloo Sub-basin. The most significant announcement was on 15 February 2017 when Falcon announced that Origin had submitted the Discovery Evaluation Report to the Northern Territory government. The submission followed the completion of the EPT at the Amungee NW-1H exploration well of the "B Shale" member of the Middle Velkerri Formation. The report provided volumetric estimates and recovery / utilisation factor for the B Shale member of the Middle Velkerri Formation within permits EP76, EP98, and EP117. Origin also prepared a contingent resource estimate using probabilistic methods and reservoir evaluation data.

Quarter 1 2017 also had an increased share based compensation expense due to the granting of 6,000,000 common shares of Falcon to Anne Flynn, Chief Financial Officer of Falcon under the approved stock option plan. The Options were granted at an exercise price of CDN$0.20 and had a vesting schedule allowing 1/3 of the Options to vest immediately with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 22 February 2019.

Quarter 1 - 4 2017: General and administrative ("**G&A**") and E&E expenses continued to decrease year on year 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: E&E expenses continued to decrease period on period due to the continued focus on managing costs by the Group.

G&A expenses increased due to higher filing fees given the improved market capitalisation of the Group throughout 2017 driven by the positive news relating to the Group's Australian E&E asset, further increases related to investor related expenses with the appointment of RBC Capital Markets and Cenkos as joint brokers with Davy.

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 stock option grants in 2018.

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

For further details of 2018/2019 updates please refer to the Beetaloo Sub-basin, Northern Territory, Australia – Current Activity section of this document.

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

[This part of the page was left blank intentionally]

LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended 31 December 2018, the Group incurred losses of $1.4 million and had operating cash outflows of $2.2 million and a retained deficit of $391.6 million. For the year ended 31 December 2017, the Group incurred losses of $4 million, had operating cash outflows of $2 million and a retained deficit of $390.2 million.

As at 31 December 2018 the Group had $6.9m of cash and cash deposits, which is sufficient to cover ongoing operating costs for the next 12 months from the date of signing the financial statements. Work has recommenced on the Group's Beetaloo Sub-basin asset, with the Group having entered Stage 2 of the work programme in August 2018, which has a Cost Cap of approximately A$65 million. Costs above the Cost Cap would need to be financed by the Group in accordance with their 30% participating interest. Stage 2 of the work programme has only recently commenced, with drilling targeted for June 2019. As of 24 April 2019, the estimation of the final costs for Stage 2, and therefore the amount, if any, that would need to be contributed by the Group remains uncertain.

The Directors and Management are confident that should further funding be required it can be raised through either an equity raise or debt funding. As at 24 April 2019 no such further funding has been raised and there can be no certainty that sufficient funds can be raised if required. This indicates the existence of a material uncertainty, which may cast significant doubt over the Group's ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include adjustments that would result if the Group was unable to continue as a going concern as the Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing this financial information which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Working Capital

Cash and cash on deposit as at 31 December 2018 was $7 million, a decrease of $2 million from $9 million as at 31 December 2017. Working capital as at 31 December 2018 decreased to $6 million from $7 million in 2017.

The increase to cash and cash equivalents was the result of net cash used in operating activities of $2.2 million, offset by cash generated from investing activities of $6.1 million and cash generated from financing activities of $0.2 million.

Accounts Receivable

Current accounts receivable as at 31 December 2018 were $0.1 million, which includes $0.02 million receivable and prepayments of $0.08 million.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at 31 December 2018 were $0.6 million which includes $0.1 million for accounts payable and $0.5 million accrued expenditures.

Capital Expenditures

For the period ended 31 December 2018 the following expenditure commitments were incurred.

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

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.

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work has already commenced at some well sites, including water bore drilling and water monitoring, with drilling targeted to commence in June 2019.

South Africa - Karoo Basin, South Africa

On granting of an approved exploration right in South Africa, the Group will be required to make a payment to the South African government of approximately $0.7 million.

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

Lease commitments

The Group has entered into lease agreements for office space in:

- Dublin, Ireland, with a break clause exercisable in April 2019.

The Group is obligated to pay the following minimum future rental commitments under non-cancelable operating leases at 31 December 2018 and 31 December 2017 during the following periods:

	As at 31 December 2018 $'000	As at 31 December 2017 $'000
2018	**-**	46
2019	**10**	10
Thereafter	**13**	-
Total	**23**	56

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.

[This part of the page was left blank intentionally]

DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at 31 December 2018 and 24 April 2019:

Class of securities	31 December 2018	24 April 2019
Common shares	931,304,183	931,304,183
Stock options	40,333,334	40,333,334
Warrant	10,000,000	10,000,000
Fully diluted common shares	981,637,517	981,637,517

LEGAL MATTERS

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

TRANSACTION WITH NON - ARMS LENGTH PARTIES AND RELATED PARTY TRANSACTIONS

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

Senzus Kft
On 1 January 2013, Senzus Kft. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. Dr. Bada is head of technical operations for Falcon. The agreement was terminated on 28 April 2015. A separate agreement was entered into on 28 April 2015, which expired on 31 March 2016. The contract was renewed with an effective date of 1 April 2016 and was subsequently terminated on 28 February 2017. Senzus Kft. was paid no consultancy fee for the year ended 31 December 2018 (2017: $17,000).

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. It was paid a consultancy fee of $9,700 for the year ended 31 December 2018 (2017: $30,258).

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 $27,988 for the period ended 31 December 2018 (2017: $0).

Oakridge Financial Management Inc.
The Group engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canada Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc. The Group incurred costs of approximately CDN$472 (2017: CDN$800) to Oakridge Financial Management Inc. during the year ended 31 December 2018. From Q4 2018, Oakridge Financial Management Inc. no longer assists with the submission of returns to Canada Revenue Agency.

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 28 in this document) and payments with regards to 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 recognised at fair value of the date a derivative contract is entered into and subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designated any derivatives as hedges as at 31 December 2018 or 31 December 2017.

The Group has the following financial instrument – a warrant. The Group has not entered into contract for "other instruments" during 2018. The Group has no "Other Instruments" as at 31 December 2018 or 31 December 2017.

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 recognised 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 31 December 2018 and 31 December 2017, and the changes therein for the periods then ended, are as follows:

	Total $'000
At 1 January 2017	227
Derivative loss – outstanding warrants	1,336
At 31 December 2017	1,563
Derivative gain – outstanding warrant	**(1,084)**
At 31 December 2018	**479**

The term of the warrant is 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

Several new standards and amendments to existing standards and interpretations, which have been issued by the IASB, and which are expected to apply to the Group are not yet effective and have not been applied in preparing these financial statements. Based on current operations the Group does not expect adoption of these new standards and interpretations to have a material impact on the financial statements.

Pronouncement	Issued date	Effective date
IFRS 16 Leases	January 2016	1 January 2019
IFRS 17 Insurance Contracts	May 2014	1 January 2021

The following new standards, amendments and interpretations are effective for the first time for periods beginning on or after 1 January 2018 but have not had a material effect on the Group and so have not been discussed in detail in the notes to the financial statements:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15)

CRITICAL ACCOUNTING ESTIMATES

Preparation of financial statements pursuant to IFRS requires a significant number of judgemental assumptions and estimates to be made. This impacts the income and expenses recognised in the statement of operations and comprehensive loss together with the valuation of the assets and liabilities in the statement of financial position. Such estimates and judgements are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances and are subject to continual re-evaluation. It should be noted that the impact of valuation in some assumptions and estimates can have a material impact on the reported results.

The following are key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies:

Critical judgments

(i) Exploration and evaluation assets
The carrying value of exploration and evaluation assets was $39.7 million at 31 December 2018 (2017: $39.6 million). The Group has determined that there are no indicators of impairment present in accordance with IFRS 6 "Exploration for and evaluation of mineral interests" regarding its Australian exploration and evaluation assets.

Management's conclusion on the facts and circumstances regarding its Australian exploration and evaluation assets required judgment based on experience and the expected progress of current exploration and evaluation activities.

The critical facts supporting the judgements are included in detail on pages 6 – 14 of this document.

The Group had previously indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing has delayed the completion of the well programme.

The Group does not believe that the delay brought about by the moratorium on hydraulic fracturing has impacted the carrying value of the asset. Work has commenced at some well sites, including water bore drilling and water monitoring, with drilling targeted to commence in June 2019.The work programme and the announcements during 2018 and 2019 provide sufficient evidence to support the carrying value of the asset.

Critical estimates

(ii) Decommissioning Provision
The decommissioning provision represents the Group's best estimate of the costs involved in the various exploration and production licence areas to return them to their original condition in accordance with the licence terms. These estimates include certain management assumptions with regard to future costs, inflation rates, timing of cash flows and discount rates.

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 reported to the Board. The Board has approved the MD&A as presented.

[End of document]