Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Year Ended 31 December 2020

(Presented in U.S. Dollars)

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INTRODUCTION

The following management's discussion and analysis (the "**MD&A**") was prepared as at 26 April 2021 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 2020. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended 31 December 2020 and 2019.

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 2020 dated 26 April 2021 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

Certain statements contained in this MD&A constitute forward-looking statements and are based on Falcon's beliefs and assumptions based on information available at the time the assumption was made. By its nature, such forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Any statements not of historical fact may be deemed to be forward-looking information. Forward-looking information typically contains statements with words such as "may", "will", "should", "expect", "intend", "plan", "anticipate", "believe", "estimate", "projects", "dependent", "potential", "scheduled", "forecast", "outlook", "budget", "hope", "support" "ongoing", "objective", "measure", "depends", "could" or the negative of those terms or similar words suggesting future outcomes. In particular forward-looking statements in this MD&A include, but are not limited to, statements with respect to: strategy of the Board of Directors of Falcon (the "**Board**") and countries it believes support the exploitation of unconventional oil and gas; the shale oil and shale gas potential of the Beetaloo Sub-basin; the Beetaloo Sub-basin work programme, expectations and bringing the project to commerciality; treatment under governmental regulatory regimes and tax laws; the quantity of petroleum and natural gas resources or reserves including details of what was submitted to the Northern Territory Government; statements relating to the Group's activities in the Beetaloo Sub-basin; plans for longer term measures to be put in place to flow back sufficient hydraulic fracture stimulation water to allow Kyalla 117 N2-1H ST2 ("**Kyalla 117**") to flow continually without assistance and enable an extended production test and the likelihood of such operations being successful; information relating to the 2021 work programme, the contingent resource estimate for the Amungee NW-1H Velkerri B shale gas pool, COVID-19 and the impact on the work programme; fiscal terms regarding the Karoo basin, South Africa, the Mineral and Petroleum Resources Development Amendment Bill ("**MPRDA Bill**"), and the awarding of exploration rights; liquidity and financial capital including the going concern capabilities of the Company; expectations regarding the ability of Falcon to access additional sources of funding including those 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 adversely impacting the exploitation of unconventional oil and gas resources; 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 risk and for relatively under-explored basins such as the Beetaloo Sub-basin there may not be the shale oil and gas commercial potential; need to obtain regulatory approvals before development commences; environmental risks and hazards and cost of compliance with environmental regulations; aboriginal claims; risks and uncertainties associated with wellbore or reservoir conditions, geological, technical, drilling and processing problems; unanticipated operating events which can delay exploration and appraisal or reduce production or cause production to be shut-in or delayed; willingness of joint venture partners to continue with a work programme and bringing towards commerciality; the ability of our joint venture 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 and bringing to commerciality; the need to obtain required approvals from regulatory authorities with delays impacting work programmes and associated costs or not receiving the requisite license to explore; risks associated with drilling wells which is speculative and often involves significant costs that may be more than estimated and may not result in any discoveries; cash availability to meet unforeseen expenses as they fall due; pandemics such as COVID-19 may be prolonged delaying work programmes and increasing cost and the other factors considered under "**Risk Factors**" in Falcon's AIF dated 26 April 2021.

With respect to forward-looking statements contained in this MD&A, Falcon has made assumptions regarding: the countries where the Group operates supporting the exploitation of unconventional oil and gas; the shale oil and shale gas commercial potential of the Beetaloo Sub-basin while it remains relatively under-explored; the continuation of the Beetaloo Sub-basin work programme and the project being brought towards commerciality; the original gas in place and contingent gas resource calculated with respect to the Beetaloo Sub-basin are the best estimates based on the drilling results to date and other data (including seismic) available; work with Falcon's joint venture partner, Origin Energy B2 Pty Ltd. ("**Origin**"), will continue, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme; the pause to operations in the Beetaloo Sub-Basin was temporary while COVID-19 was controlled; estimated date for the awarding of the exploration right over the acreage in the Karoo Basin; the Group's ability to continue as a going concern; the Beetaloo Sub-basin project being brought towards commerciality.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide readers with a more complete perspective on Falcon's future operations and such information may not be appropriate for other purposes. Falcon's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, if any, that the Company will derive therefrom. Readers are cautioned that the foregoing lists of factors are not exhaustive.

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.

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 2020 of the Company's interest in Australia is $40.4 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); 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)	22.5 (i)	Origin (iii)	Exploration	1,891.3
Exploration Permit EP-98 (Beetaloo Sub-basin, Northern Territory, Australia)	22.5 (i)	Origin (iii)	Exploration	10,316.0
Exploration Permit EP-117 (Beetaloo Sub-basin, Northern Territory, Australia)	22.5 (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 22.5% interest (revised as of 7 April 2020 with the farm down of 7.5% of its participating interest to Origin, previously held a participating interest of 30%) in EP-76, EP-98 and EP-117 (collectively the "**Exploration Permits**"). Northern Territory government approval remains outstanding for the farm down of the 7.5%; however, management expects this will be received in due course. 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. That overall interest increased to 77.5% with the farm down in April 2020.

<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 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, 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$50 million for the financial year and 'base rate entity passive income' of 80% or less of assessable income, Falcon Australia would be considered a 'base rate entity' for Australian tax purposes and would be taxed at a lower rate of 26%. 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 with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire 7% of their 8% private overriding royalty interest ("**ORRI**") over the Exploration Permits. Falcon Australia made a payment of $5 million to acquire 5% of the ORRI in 2014. The Group also agreed to acquire a further 2% based on a five year call option granted to Falcon Australia at a future cost of $15 million to the joint venture in proportion to their interest, with the TOG Group retaining a 1% royalty.

On **23 April 2019** it was announced that Falcon Australia had 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. Following confirmation of registration of the Extension from the Northern Territory government in August 2019, Falcon Australia paid $500,000 to the TOG Group for granting the Extension, with the cost of exercising the call option increasing from $4.5 million to $7.5 million.

On **7 April 2020** it was announced that Falcon Australia had agreed to farm down 7.5% of its participating interest ("**PI**") in the Exploration Permits, such that following the transaction, Falcon Australia now holds a 22.5% PI. As part of that deal Origin assumes 25% of the cost of Falcon Australia's remaining call option to reduce the overriding royalties with the TOG Group. The cost to Falcon Australia to exercise the call option, reduced from $7.5million to $5.625 million, in line with the reduced PI.

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

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.

On **5 May 2017**, it was announced that Origin had acquired Sasol's 35% interest in the Beetaloo joint venture ("**JV**"). The transaction did not impact Falcon's 2014 farm-out agreement, as Origin assumed 100% of the future costs of the farm-out. Sasol departed the JV 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.

On **7 April 2020** it was announced that Falcon Australia had executed an agreement which included a restated Farm-Out Agreement and Joint Operating Agreement (collectively "**the 2020 Agreements**") with Origin farming down 7.5% of Falcon Australia's PI in the Exploration Permits. Following the transaction Falcon Australia now holds a 22.5% PI. Full details of the announcement are included on pages 8-9.

Discoveries and Prospectivity
The work programme with Origin commenced in 2015 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 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 and an initial report on discovery ("**Notification of Discovery**") to the Department of Primary Industry and Resources of the Northern Territory on the Amungee NW-1H well. 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.

For key details of the Discovery Evaluation Report and Origin's contingent gas resource estimate please refer to the Company's AIF, dated 26 April 2021, on pages 12-14.

On **19 January 2021** Falcon announced that Origin had submitted a Notification of Discovery to the Department of Industry, Tourism and Trade of the Northern Territory ("**DITT**") on Kyalla 117 N2-1H ST2 well ("**Kyalla 117**"). Full details are included on page 10.

Current Activity

On **20 November 2019** Falcon announced that drilling of the vertical section of the Kyalla 117 N2-1 appraisal well 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 confirmed:

- The continuation of the regionally pervasive Kyalla Formation between the Beetaloo W-1 and Amungee NW-1H wells.
- Elevated gas show with relatively high constituents of natural gas propane, butane and pentane, respectively ("**C3, C4 and C5 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 were acquired.

On **10 December 2019** Falcon announced the commencement of the drilling of the horizontal section of the Kyalla 117 N2-1H appraisal well, along with the advancement of the vertical well evaluation. The JV elected to land the horizontal well within the Lower Kyalla shale, at a depth of ~1800m true vertical depth ("**TVD**").

Evaluation of the Kyalla 117 N2-1 vertical well advanced, with the following noted:

- Three source rock reservoir ("**SRR"**) sections were identified within the Kyalla Shale Formation, characterised as the Lower, Middle and Upper Kyalla.
- The thickness of the entire Kyalla Shale Formation measured almost 900 metres.
- Gross thickness of each SRR interval is between 75 and 125 metres.
- Each SRR exhibited elevated gas shows with relatively high C_3, C_4 and C_5 components.
- Diagnostic fracture injection tests ("**DFITs"**) were performed on each SRR.

The analysis of conventional cores acquired in each of the Upper and Lower Kyalla reservoir sections, along with sidewall cores, DFITs and extensive wireline logging, enables a full-scale evaluation of prospectivity of the Kyalla Formation in the central part of the Beetaloo Sub-Basin.

On **13 January 2020** Falcon provided an operational update on the drilling of the Kyalla 117 N2-1H well and noted the below.

The vertical section of Kyalla 117 well was successfully and safely completed in late November 2019. Drilling of the horizontal production hole section with a target length of 1,000 to 2,000 metres, commenced in early December. However, after reaching a horizontal length of 700 metres, operational challenges were experienced in maintaining adequate clean hole conditions and stability over portions of the horizontal production hole section appropriate to complete operations.

The initial horizontal production hole section was plugged, in line with regulatory requirements with subsequent sidetracking and drilling a new horizontal production hole section. Plugging back and drilling a new horizontal section from an existing vertical well is not uncommon in an exploration drilling program such as this.

With the drilling rig and equipment on-site and in position, it was estimated that drilling operations would recommence on the new horizontal well section within a month. It was further noted that fracture stimulation activity would only occur after the successful completion of drilling and the integrity of the well was tested and verified.

Results obtained from operations in the target shale formation demonstrated good reservoir continuity, conductive natural fractures, and continuous gas shows. The JV remained positive about the potential of the Lower Kyalla Formation, resulting in the decision to continue with drilling operations.

On **30 January 2020** Falcon announced the commencement of the sidetrack to drill the new horizontal production hole section of Kyalla 117. This new horizontal section would again target a lateral length of 1,000 to 2,000 metres within the Lower Kyalla shale, at a depth of ~1,800mTVD.

On **20 February 2020** Falcon announced that drilling operations, including casing and cementing, of Kyalla 117 were successfully completed. The well was drilled to a total measured depth of 3,809 metres, including a 1,579 metre lateral section (from 90 degrees) in the Lower Kyalla Formation. Preparatory work, including the drilling of water impact monitoring bores, a new requirement of the Code of Practice for onshore petroleum activities in the NT, would commence in the following month ahead of the next stage of operations. The JV would continue its in-depth shale evaluation program of all the technical data gathered from the conventional cores, sidewall cores, DFITs and extensive wireline logging, to build an understanding of the prospectivity of the Kyalla Formation.

On **26 March 2020,** Falcon provided an operational update on the Beetaloo project considering COVID-19.

Following the successful completion of drilling operations, including cementing and casing of the horizontal well section of Kyalla 117, the JV completed the installation of water monitoring bores and preparatory work continued towards the next phase of operations, which included the fracture stimulation of Kyalla 117.

Given the unprecedented circumstances brought about by COVID-19, the JV made changes to its operations to protect the health and well-being of Origin employees, contractors and communities across the Northern Territory. Adhering to the latest guidelines and advice from the Northern Territory and Federal Government on health and safety and social distancing were of the utmost importance to the JV and all present on site were observing health authority requirements.

Following the implementation of the necessary control procedures, the JV elected to temporarily pause activities at the Kyalla 117 site, reducing those on site to essential personnel only, whilst ensuring the required regulatory and environmental management conditions to monitor and maintain the site could be met..

While the JV is committed to the Beetaloo project which, if successful, has the potential to deliver long-term economic and social benefits for the Northern Territory, Australia the circumstances presented by COVID-19 led the JV to conclude that the immediate focus in March 2020 was to protect the people and communities of the Northern Territory.

On **7 April 2020** Falcon announced that Falcon Australia had executed the 2020 Agreements with Origin to farm down 7.5% of Falcon Australia's 30% PI in the Exploration Permits. Falcon and Origin were obligated to seek the Northern Territory government and TSXV stock exchange approvals, in respect of the 2020 Agreements. The Northern Territory government approval remains outstanding.

Transaction details

- With the necessary approvals, the PI of the respective JV partners will be:
  - Falcon Australia 22.5%
  - Origin 77.5%
- In consideration of Falcon Australia transferring 7.5% of its PI, Origin increases the gross cost cap of the work program by A$150.5 million.
- The previous farm-in arrangement included a Stage 2 gross cost cap of A$65.3 million and a Stage 3 gross cost cap of A$48 million, or A$113.3 million in total. Under the 2020 Agreements, the Stage 2 and Stage 3 gross cost caps will be combined and increased by A$150.5 million to A$263.8 million (the "**Overall Cost Cap**"),
- This Overall Cost Cap will be applied to the completion of the Stage 2 and Stage 3 work programmes.
- Amounts of the Overall Cost Cap not utilised during Stage 2 and Stage 3 will be applied to future work programmes.
- Expenditure above the Overall Cost Cap will be borne by the JV partners in proportion to their PI.
- Origin will assume 25% of the cost of Falcon Australia's remaining call option to reduce the overriding royalties with the TOG Group. The cost to Falcon Australia, should it wish to exercise the call option, will reduce from $7.5 million to $5.625 million, in line with its reduced PI.

Furthermore, on 7 April 2020 it was noted that drilling operations at Kyalla 117 were successfully completed in February 2020, reaching a total measured depth of 3,809 metres, including a 1,579-metre lateral section (from 90 degrees) in the Lower Kyalla Formation. Water impact monitoring bore drilling was completed in March and final preparatory work continued ahead of the next stage of operations.

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

On **20 August 2020** an operational update was provided noting that Kyalla 117 results obtained demonstrated good reservoir continuity, conductive natural fractures and continuous gas shows.

Following the pause of operations in response to the COVID-19 pandemic, the Ensign rig was secured and maintained locally, and by mid-May all personnel had left the Kyalla 117 site.

Subject to COVID-19 related conditions, fracture stimulation of Kyalla 117 was expected to commence in Q3/Q4 2020 with extended production testing of the well to follow. Initial results from the production test were expected during Q4 2020 with final results expected by the end of Q1 2021. These results would inform the decision to either further evaluate this liquids-rich gas play or commence activities in the Velkerri liquids-rich gas play.

Construction of the Velkerri 76 well lease pad was completed in early December 2019 and environmental approval to drill and fracture stimulate the Velkerri Flank well was granted in late December 2019.

On **21 September 2020** Falcon noted that operations had recommenced at Kyalla 117 with the fracture stimulation of the well and extended production testing to follow.

On **2 October 2020** Falcon provided the following technical update regarding the hydraulic stimulation of Kyalla 117:

- Completion of 11 hydraulic stimulation stages along the 1,579-metre horizontal section in the Lower Kyalla Formation
- Stimulation treatments were successfully executed
- Activities had commenced in preparation for the flowback and extended production test
- Early stage gas flow rates were expected in the following weeks

On **4 November 2020** Falcon noted that operations were continuing following the hydraulic stimulation at Kyalla 117. Following a short initial flow back of hydraulic fracture stimulation fluid to surface the well was subsequently shut in and production tubing was successfully installed and tested. Flow back operations recommenced in late October, with the well flowing back hydraulic fracture stimulation fluid at a rate of approximately 500 barrel per day with minor gas breakthroughs observed at that time.

On **25 November 2020** Falcon provided an update on operations at Kyalla 117. It noted that Kyalla 117 continued to flow back fracture stimulation fluid, with some gas shows; however, a measurable gas breakthrough that would allow the commencement of extended production testing to assess the extent of the resource that may be present had yet to occur.

Data collected and analysed to guide ongoing operations showed greater pressures in the horizontal section of Kyalla 117 than in the surrounding reservoir, due to the saline content and density of the flowback fluid and the hydrostatic column weight of this fluid in the vertical section. This pressure difference can prevent the flow of gas from the reservoir into the fractures and then to surface and it is not unusual in shale plays to observe the salinity and density of the flowback fluid increasing as salt easily migrates from the formation.

Operations were planned to re-enter Kyalla 117 with coiled tubing and apply nitrogen lift techniques to lower pressures in the well and assist with achieving and sustaining gas breakthrough that, if successful, would allow extended production testing to commence. This technique is not uncommon and was applied to the successful Amungee NW1-1H well in 2016.

As is the nature of exploration and appraisal, Falcon and Origin, continually responded to the data gathered through operations to inform ongoing activities.

Other data collected up to 25 November 2020 remained positive. In particular, core analysis indicates mature hydrocarbons and good permeability (natural pathways for gas to flow) and mud logs indicate liquids rich gas. The fracture stimulation of the well was successful and the integrity of the well remains.

On **10 December 2020** Falcon noted that the JV had decided to execute operations without delay with all of the necessary equipment and consumables for the nitrogen lift being prepared to mobilise to the well site.

On **17 December 2020** Falcon noted the announcement by the Australian Government and its plans to provide up to A$50 million to accelerate exploration activity in the Beetaloo sub-basin. The funding is designed to fast-track drilling by providing grants to cover 25% of eligible exploration costs, capped at A$7.5 million per well and three wells per exploration venture. The funding will be put towards exploration that occurs before June 2022.

The Northern Territory's Geological Survey estimates that the sub-basin could hold more than 200,000 petajoules of gas (190 Tcf) and that, even if a very conservative 10% of that gas was recovered, it could still supply Australia's domestic gas demand for more than 10 years.

On **24 December 2020** Falcon noted that the coiled tubing unit and all necessary consumables had arrived at the wellsite and the rigging up of the equipment was in progress. Nitrogen lift operations were expected to commence in the following few days.

On **19 January 2021** Falcon announced that Origin had submitted a Notification of Discovery to DITT on Kyalla 117. The Notification of Discovery is a requirement under s64(1) of the Petroleum Act 1984 (Northern Territory) and the NT Guidelines for reporting a petroleum discovery.

Details of the Notification of Discovery from Origin to the DITT were as follows:
- The Notification of Discovery is supported by preliminary production test data and petrophysical modelling.
- This follows the introduction of nitrogen to lift the fluids in Kyalla 117, which has enabled Kyalla 117 to flow unassisted for a period of seventeen hours.
- Unassisted gas flow rates ranging between 0.4-0.6 MMscf/d (million standard cubic feet per day) over seventeen hours were recorded.
- Flow back of hydraulic fracture stimulation water to surface over the same period, averaged between 400-600 bbl/d.
- Initial analysis suggests a liquid-rich gas composition with less than 1% CO_2.
- Condensate shows were also observed.

Further Information
- These early-stage flow rates are preliminary indications of well performance, and an extended production test ("**EPT**") will be required to determine the long-term performance of Kyalla 117.
- Longer-term measures will be put in place to flow back sufficient hydraulic fracture stimulation water to allow Kyalla 117 to flow continually without assistance and enable an EPT to continue in the coming months during the dry season.
- A further update will be provided when production testing has concluded, and detailed evaluation has been undertaken, expected to be in Q2 2021.

Australian Government
It was also noted that the Australian Government announced the previous week that it would invest A$217m in economic enabling infrastructure and upgrades to remote roads in the Northern Territory. These upgrades will provide quality infrastructure to support gas development and other industries in and around the Beetaloo Sub-basin. This is in addition to the A$50m being provided by the Australian Government to accelerate exploration activity in the Beetaloo announced last December.

On **22 January 2021** Falcon provided details on the first gas composition data obtained during the 17-hour unassisted flow period of Kyalla 117.

The initial analysis of natural gas by gas chromatography confirms a liquids-rich gas stream low in CO_2 as follows:

- C_1 = 65.03 mole percent ("**mol%**")
- C_2 = 18.72 mol%
- C_3 = 8.37 mol%
- iC_4 = 1.29 mol%
- nC_4 = 2.03 mol%
- C_5+ = 2.73 mol%
- CO_2 = 0.91 mol%
- N_2 = 0.92 mol%

(C_1 methane, C_2 ethane, C_3 propane, C_{3+} Propane and heavier constituents of natural gas, iC_4 iso-butane, nC_4 n-butane, $C0_2$ carbon dioxide, N_2 nitrogen)

The elevated C_3+ gas component of 14.42 mol%, which meets pre-drill expectations and confirms the Lower Kyalla Shale as a liquids-rich gas play. Gas composition data also support the view that the Kyalla gas stream will have elevated liquefied petroleum gas and condensate yields.

As previously announced, longer term measures will be put in place to flow back sufficient hydraulic fracture stimulation water to allow the Kyalla 117 to flow continually without assistance. This work is expected to commence at the start of the dry season in Q2 2021 and if successful will allow an EPT of between 60 and 90 days to commence.

On **19 March 2021** Falcon provided details of the 2021 work programme. The 2021 work programme is expected to include the following:

- Resumption of clean-up operations of Kyalla 117 and commence an EPT
- Drilling of the Velkerri 76 S2-1 vertical well ("**Velkerri 76**"), targeting the Velkerri play along the south-eastern flank of the Beetaloo Sub-basin, which is predicted to be in a liquids rich gas window.
- A production test at Amungee NW 1H.

2021 Work Programme Detail

Kyalla 117

- Resumption of reservoir clean-up operations using an artificial lift technique.
- If the Kyalla 117 clean-up is successful, progress to an EPT.

Velkerri 76

- Drill a vertical pilot well to acquire core and log and run diagnostic fracture injection test data across the Velkerri.

Amungee NW 1H

- A production test to be carried out to determine if all frack stages contributed to the initial EPT conducted in 2016. Results of Amungee NW-1H from 2016/17 are included in the Company's AIF, dated 26 April 2021, on pages 12-14.

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 prescribed various technical and environmental standards for onshore hydraulic fracturing. 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. 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 does not foresee the awarding of an exploration right over the acreage within the next 12 months.

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 is a single rate of 9%, which is applicable to all levels of net income. There is also a profit based energy industry tax of 31% levied on energy supplying companies 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 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. receiving a cash payment of $1.5 million. 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, however well production did not meet commercial rates and the well was plugged and abandoned. 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 2015, Falcon signed a termination agreement with NIS, with NIS paying $3.7 million 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 well 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 maintain and safeguard its Hungarian wells and 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 2020, Falcon earned $5,000 (2019: $5,000) in revenue from its Alberta, non-operating working interests (the "Hackett Interest") in three producing natural gas wells. On 22 February 2021 it was announced that Falcon had agreed to assign its working interest in three gross producing wells and one gross shut-in well and associated infrastructure in Alberta, to a large Canadian-based company. Under the terms of the assignment, Falcon agreed to pay a total of CAD$37,000 to cover its net working interest share of the abandonment and reclamation obligations of the wells and associated infrastructure.

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SELECTED ANNUAL INFORMATION

(In thousands of $ unless otherwise indicated)	2020	2019	2018
For the year ended 31 December:			
Revenues	5	5	15
Net loss	(1,829)	(1,739)	(1,382)
Basic & diluted - Loss per share - $	(0.002)	(0.002)	(0.001)
Cash dividend per share	Nil	Nil	Nil
At 31 December:			
Total assets	54,053	55,725	49,099
Non-current liabilities	10,563	10,331	10,102

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 2018 the Group incurred losses of $1.4 million, which included a fair value gain on outstanding warrants for $1.1 million and a share-based compensation charge of $126,000. General and administrative expenses were the main contributor to the loss for the year.

For the twelve months of 2019 the Group incurred losses of $1.7 million, which included a fair value gain on outstanding warrants for $369,000 and a share-based compensation charge of $12,000. General and administrative expenses were the main contributors to the loss for the year.

For the twelve months of 2020 the Group incurred losses of $1.8 million. General and administrative expenses were the main contributor to the loss for the year and these were offset by an unrealised fair value gain on outstanding warrants for $110,000. 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.

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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 2020 and 2019.

Management's Discussion and Analysis of financial condition and results of operations for the three months ended 31 December 2020 as compared to the three months ended 31 December 2019

The Company reported a loss of $0.4 million for the three months ended 31 December 2020 compared to a net loss of $59,000 for the three months ended 31 December 2019. Changes between 2020 and 2019 were as follows:

	Three months ended 31 December		Changes	
	2020 $'000	2019 $'000	$'000	%
Revenue				
Oil and natural gas revenue	**2**	1	1	100%
	2	1	1	100%
Expenses				
Exploration and evaluation expenses	**(49)**	(48)	(1)	2%
Production and operation expenses	**(4)**	(4)	-	-
General and administrative expenses	**(456)**	(475)	19	-4%
Foreign exchange gain	**87**	47	40	85%
	(422)	(480)	58	-12%
Results from operating activities	**(420)**	(479)	59	-12%
Fair value gain – outstanding warrants	**-**	139	(139)	-100%
Finance (expense) / income				
Interest income on bank deposits	**-**	41	(41)	-100%
Accretion of decommission provisions	**(57)**	(56)	(1)	2%
Net foreign exchange gain	**35**	296	(261)	-88%
	(22)	281	(303)	-108%
Loss income before taxation	**(442)**	(59)	(383)	649%
Taxation	**-**	-	-	-
Loss income and comprehensive loss	**(442)**	(59)	(383)	649%
Equity holders of the company	**(442)**	(64)	(378)	591%
Non-controlling interest	**-**	5	(5)	-100%
Loss and comprehensive loss	**(442)**	(59)	(383)	649%

Oil and natural gas revenue
Oil and natural gas revenue of $2,000 (2019: $1,000) 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		Change	
	2020	2019		
	$'000	$'000	$'000	%
Consulting, legal and other associated costs	**(8)**	(9)	1	-11%
Well related costs	**(41)**	(39)	(2)	5%
	(49)	(48)	(1)	2%

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. Costs have remained relatively constant quarter on quarter.

General and administrative expenses

	Three months ended 31 December		Change	
	2020	2019		
	$'000	$'000	$'000	%
Accounting and audit fees	**(39)**	(30)	(9)	30%
Consulting fees	**(12)**	(8)	(4)	50%
Legal fees	**(10)**	(4)	(6)	150%
Investor relations	**(41)**	(73)	32	-44%
Office and administrative costs	**(65)**	(63)	(2)	3%
Payroll and related costs	**(237)**	(220)	(17)	8%
Directors' fees	**(51)**	(50)	(1)	2%
Travel and promotion	**(1)**	(27)	26	-96%
	(456)	(475)	19	-4%

General and administrative expenses decreased by $19,000 to $456,000 in 2020 from $475,000 in 2019.

The main changes were as follows:
- Accounting and audit fees have increased quarter on quarter due to ad hoc tax related costs in the group, audit fee adjustments and foreign exchange fluctuations.
- Consulting and legal fees: Costs have increased in 2020 due to increased exploration activity of the group during the year.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. There were a number of contributing factors to the decrease for the quarter, including less shareholder engagement due to travel restrictions imposed by COVID and one-off costs in 2019 not incurred in 2020.
- Office and administrative costs have marginally increased in the period. Movement relates to increased insurance premiums driven by market conditions; these increases were substantially offset by reduced 2020 filing fees due to a reduction in the market capitalisation of the Company in 2019, these factors result in an overall marginal increase.
- Travel and promotion reduced period on period due to travel restrictions imposed by COVID-19.

Foreign exchange gain
The foreign exchange gain recorded in operating expenses for the three months ended 31 December 2020 is attributed to favourable movements to the US dollar since 30 September 2020. The same three-month period in 2019 also had favourable movements to the US dollar.

Fair value gain – outstanding warrant
There is no fair value gain or loss for the three months ended 31 December 2020, the warrant was not exercised and expired in January 2020 with a unrealised gain recognised at 31 March 2020. For the similar three months in 2019, the valuation movement was driven by the decrease in the share price from CDN20.5 cents at 30 September 2019 to CDN20.0 cents at 31 December 2019.

Finance (expense) / income
The Q4 2020 movement is primarily due to a reduction in favourable foreign exchange movements to the US Dollar during the three months period ended 31 December 2020 relative to the same period in 2019 along with reduced interest income.

Gain attributable to non-controlling interest
The amount reflected in 2020 and 2019 represent Falcon Australia's gain attributable to shareholders other than Falcon.

Cash flow

	Three months ended 31 December	
	2020	**2019**
	$'000	**$'000**
Net cash used in operating activities	**(475)**	(472)
Net cash (used in) / generated by investing activities	**(3)**	15
Change in cash and cash equivalents	**(478)**	(457)
Effect of exchange rates on cash & cash equivalents	**29**	344
Cash and cash equivalents at beginning of period	**11,485**	13,179
Cash and cash equivalents at end of period	**11,036**	13,066

Cash and cash equivalents have decreased by $2 million to $11 million since Q4 2019. The main changes were as follows:

- Net cash used in operating activities: There was a slight increase for the three-month period in 2020 relative to the same period in 2019. The increase is due to the timing of payments and operational costs for certain activities.
- Net cash (used in) / generated by investing activities: Q4 2019 movement relates to movements in exploration and evaluation assets during the period, offset by interest earned from cash on deposit. Q4 2020 movement relates to the purchase of property plant and equipment.
- Effect of exchange rates on cash & cash equivalents: There were favourable movements against the US Dollar in both quarters.

RESULTS OF OPERATIONS

Management's Discussion and Analysis of financial condition and results of operations for the year ended 31 December 2020 as compared to year ended 31 December 2019

The Company reported a loss of $1.8 million for the year ended 31 December 2020 compared to a loss of $1.7 million for the year ended 31 December 2019. Changes between 2020 and 2019 were as follows:

	Year ended 31 December		Changes	
	2020	2019		
	$'000	$'000	$'000	%
Revenue				
Oil and natural gas revenue	**5**	5	-	0%
	5	5	-	0%
Expenses				
Exploration and evaluation expenses	**(159)**	(233)	74	-32%
Production and operating expenses	**(12)**	(13)	1	-8%
General and administrative expenses	**(1,871)**	(1,780)	(91)	5%
Share based compensation	**-**	(12)	12	-100%
Foreign exchange gain / (loss)	**105**	(70)	175	-250%
	(1,937)	(2,108)	171	-8%
Results from operating activities	**(1,932)**	(2,103)	171	-8%
Fair value gain – outstanding warrants	**110**	369	(259)	-70%
Finance expense				
Interest income on bank deposits	**16**	136	(120)	-88%
Accretion of decommission provisions	**(231)**	(226)	(5)	2%
Net foreign exchange gain	**208**	85	123	145%
	(7)	(5)	(2)	40%
Loss before taxation	**(1,829)**	(1,739)	(90)	5%
Taxation	**-**	-	-	-
Loss and comprehensive loss	**(1,829)**	(1,739)	(90)	5%
Loss and comprehensive loss attributable to:				
Equity holders of the company	**(1,830)**	(1,739)	(91)	5%
Non-controlling interest	**1**	-	1	N/A
Loss and comprehensive loss	**(1,829)**	(1,739)	(90)	5%

Oil and natural gas revenue
Oil and natural gas revenue of $5,000 (2019: $5,000) 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**	
	2020	**2019**		
	$'000	**$'000**	**$'000**	**%**
Consulting, legal and other associated costs	**(32)**	(77)	45	-58%
Well related costs	**(127)**	(156)	29	-19%
	(159)	(233)	74	-32%

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 decreased period on period, in 2019 maintenance work was undertaken on the Hungarian wells and there were legal fees incurred relating to South Africa, there were no similar costs in 2020.

General and administrative expenses

	Year ended 31 December		**Change**	
	2020	**2019**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(134)**	(118)	(16)	14%
Consulting fees	**(42)**	(42)	-	0%
Legal fees	**(24)**	(14)	(10)	71%
Investor relations	**(140)**	(242)	102	-42%
Office and administrative costs	**(230)**	(229)	(1)	0%
Payroll and related costs	**(1,095)**	(843)	(252)	30%
Directors' fees	**(202)**	(202)	-	0%
Travel and promotion	**(4)**	(90)	86	-96%
	(1,871)	(1,780)	(91)	5%

General and administrative expenses increased by $91,000 in the twelve months from December 2019 to December 2020. The main changes were as follows:

- Accounting and audit fees have increased due to ad hoc tax related costs in the group, audit fee adjustments and foreign exchange fluctuations.
- Consulting and legal fees: Legal costs have increased in 2020 due to increased exploration activity of the group 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 decrease for the twelve months ended 31 December 2020 relates mainly to the appointment of Cenkos as NOMAD and sole broker. Other reductions include less shareholder engagement due to COVID and one-off costs in 2019 not incurred in 2020.
- Office and administrative expenses have remained relatively constant year on year, a decrease in filing fees due to a reduced market capitalisation of the Company with the relevant stock exchanges and reduced office and administrative costs in Hungary were offset by insurance premium increases resulting from external market conditions.
- Travel and promotion decreased in the current twelve-month period due to travel restrictions imposed by COVID-19.

Share based compensation
There was no share based compensation expense incurred in 2020 compared to the same 12 month period in 2019. 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 have been no stock option grants from 2018 to 2020. It was announced on 19 February 2021 that Falcon had granted incentive stock options to purchase an aggregate of 38,000,000 common shares of Falcon to a number of recipients, including directors and officers under the stock option plan approved at Falcon's annual shareholders meeting held on 10 December 2020.

Foreign exchange gain / (loss)
The foreign exchange gain recorded in operating expenses for the year ended 31 December 2020 is attributed to favourable movements to the US dollar since 31 December 2019, while the loss in 2019 is attributed to unfavourable movements in the twelve months from 31 December 2018

Fair value gain – outstanding warrant
There is a fair value gain for the twelve months ended 31 December 2020, the warrant was not exercised and expired in January 2020 and hence the unrealised gain recognised at 31 December 2020. The primary factor associated with the 2019 valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN22.0 cents at 31 December 2018 to CDN20.0 cents at 31 December 2019.

Finance expense
The overall movement in finance expense in 2020 relative to 2019 is minimal. Reduced interest income on deposits given a significant reduction in interest rates in 2020 was offset by foreign exchange gains given favourable movement to the US dollar from 31 December 2019.

Gain attributable to non-controlling interest
The amount reflected in 2020 represent Falcon Australia's gains attributable to shareholders other than Falcon.

Cash flow

	Year ended 31 December	
	2020	2019
	$'000	$'000
Net cash used in operating activities	**(2,151)**	(1,973)
Net cash used in investing activities	**(35)**	(405)
Net cash generated by financing activities	**-**	8,433
Change in cash and cash equivalents	**(2,186)**	6,055
Effect of exchange rates on cash & cash equivalents	**156**	44
Cash and cash equivalents at beginning of period	**13,066**	6,967
Cash and cash equivalents at end of period	**11,036**	13,066

Cash and cash equivalents have decreased by $2 million to $11 million in 2020 from $13.1 million in 2019. The main changes were as follows:

- Net cash used in operating activities: The increase in 2020 relative to 2019 is due to timing of payments and operational costs for certain activities in 2020.
- Net cash used in investing activities: 2020 movements relate to payments related to the exploration and evaluation assets of $48,000 and offset by interest income of $16,000. 2019 incurred costs of $541,000 in additions to exploration and evaluation assets and offset slightly by interest income in the twelve months of 2019.
- Net cash generated from financing activities: 2019 relates to equity proceeds during the year, no similar funding during 2020.

SUMMARY OF QUARTERLY RESULTS

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

(In thousands of $ unless otherwise stated)

As of:

For the three months ended:	**31 March 2020**	**30 June 2020**	**30 September 2020**	**31 December 2020**
Revenue	1	1	1	2
(Loss) / income	(1,440)	199	(146)	(442)
(Loss) / income attributable to common shareholders	(1,421)	183	(150)	(442)
(Loss) / (income) per share-basic and diluted (cent)	(0.001)	0.000	(0.000)	(0.000)

For the three months ended:	**31 March 2019**	**30 June 2019**	**30 September 2019**	**31 December 2019**
Revenue	2	1	1	1
(Loss) / income	(1,045)	129	(764)	(59)
(Loss) / income attributable to common shareholders	(1,044)	127	(758)	(64)
(Loss) / (income) per share-basic and diluted (cent)	(0.001)	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 2019

Exploration and evaluation **("E&E")** expenses remained consistent period on period due to the continued focus on managing costs by the Group.

General and administrative ("**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.

Unfavourable movements in the share price during the period led to a fair value gain on the outstanding warrants.

Quarter 4 2019

The main movements in quarter 4 2019 relative to the same period in 2018 related to foreign exchange, which saw gains due to favourable movements against the US dollar in the period. Other movements related to a gain on warrants, due to a reduction in the share price for the period.

Quarter 1 2020

G&A expenses decreased due to reduced investor relation expenses given Cenkos is now Falcon's sole broker and NOMAD and there was reduced travel costs resulting from restrictions imposed by COVID-19.

There was a fair value gain on the warrant given it was not exercised and expired in January 2020.

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

Quarter 2 2020

E&E expenses decreased relative to the same period in 2019 due to once off maintenance costs related to Hungary and legal costs associated with South Africa, there were no similar costs in 2020.

G&A expenses increased in the period due to payroll related cost increases.

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

Quarter 3 2020

The main movement for quarter 3 related to favourable movements against the US Dollar. Similar to quarter 2 2020 there was no loss or gain on the warrant given it expired in January 2020.

Quarter 4 2020

The main contributor to costs for quarter 4 2020 were G&A expenses, these costs remained relatively constant to the previous quarter with nothing of significance to note.

For further details of 2020/2021 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 26.

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LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended 31 December 2020, the Group incurred losses of $1.8 million and had operating cash outflows of $2.2 million and a deficit of $395.2 million. For the year ended 31 December 2019, the Group incurred losses of $1.7 million, had operating cash outflows of $2.0 million and a deficit of $393.3 million.

As at 31 December 2020 the Group had cash and cash on deposit of $11 million.

Having given due consideration to the cash requirements of the Group, the Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for a period of at least twelve months from the date of signing the financial statements for the years ended 31 December 2020 and 2019. On 26 March 2020 given the unprecedented circumstances brought about by COVID-19 the joint venture decided to temporarily pause activities to the latter half of 2020, which resulted in reduced project costs for a number of months. September 2020 saw the resumption of activities at Kyalla 117 N2-1H ST2 well ("**Kyalla 117**"), with full details included in the Group's Management's Discussion & Analysis for the year ended 31 December 2020. Furthermore, on 7 April 2020 it was announced that Falcon Australia had agreed to farm down 7.5% of its participating interest in the Exploration Permits, following the transaction, Falcon Australia holds a 22.5% participating interest. In consideration for the farm down Origin agreed to increase the gross cost cap of the work program by A$150.5 million. The previous farm-in arrangement included a Stage 2 gross cost cap of A$65.3 million and a Stage 3 gross cost cap of A$48 million, or A$113.3 million in total. Under the Agreements, the Stage 2 and Stage 3 gross cost caps are combined and increased by A$150.5 million to A$263.8 million. Origin assumes 25% of the cost of Falcon Australia's remaining call option to reduce the overriding royalties with the TOG Group. The cost to Falcon Australia, should it wish to exercise the call option, reduced from $7.5 million to $5.625 million, in line with its reduced participating interest and subsequently increased to $6 million following agreement with the TOG Group in July 2020 to extend the call option to 30 April 2022. Northern Territory government approval remains outstanding; however, management expects this will be received in due course. On 19 January 2021 it was announced that Origin had submitted a Notification of Discovery to the Department of Industry, Tourism and Trade of the Northern Territory on Kyalla 117, details of which are included in "Overview of Business and Overall Performance – Beetaloo Sub-basin, Northern Territory, Australia". These early-stage flow rates ay Kyalla 117 are preliminary indications of well performance, and an EPT will be required to determine the long-term performance of Kyalla 117. Longer-term measures will be put in place to flow back sufficient hydraulic fracture stimulation water to allow Kyalla 117 to flow continually without assistance and if successful enable an EPT to continue in the coming months during the dry season. In March 2021 the Group announced its planned 2021 work programme which includes the resumption of clean-up operations at Kyalla 117 and if successful an EPT, the drilling of Velkerri 76 S2-1 vertical well and a production test at Amungee NW-1H. For these reasons set out above, the Board continues to adopt the going concern basis in preparing this financial information which assumes the 2021 work programme will be within the overall cost cap, with sufficient funds on hand to cover the Group's cash used in operating and investing activities, thereby the Group will be able to meet its liabilities as they fall due for at least twelve months from the date of this document.

Working Capital

Cash and cash on deposit as at 31 December 2020 was $11 million, a decrease of $2 million from $13.1 million as at 31 December 2019. Working capital as at 31 December 2020 decreased to $10.4 million from $12.4 million in 2019.

The decrease to cash and cash equivalents was predominantly the result of cash used in operating activities of $2.2 million.

Accounts Receivable

Current accounts receivable as at 31 December 2020 were $0.1 million, which is predominantly prepayments.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at 31 December 2020 were $0.7 million which includes $0.1 million for accounts payable and $0.6 million accrued expenditures.

Capital Expenditures

For the period ended 31 December 2020 the following expenditure commitments exist.

Australia - Beetaloo Sub-Basin, Northern Territory, Australia

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

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

Originally the Group indicated that it expected the work to be undertaken between 2016 and 2018, however the introduction of a moratorium on hydraulic fracturing delayed the completion of the drilling and exploration programme. In March 2018, the inquiry concluded its work with the publication of a Final Report and on 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Work recommenced in 2019, details of current operations to date are included in this document on pages 7 to 11.

On 7 April 2020 it was announced that Falcon Australia had agreed to farm down 7.5% of its PI in the Exploration Permits, such that following the transactions, Falcon Australia holds a 22.5% PI. In consideration for the farm down Origin agreed to increase the gross cost cap of the work program by A$150.5 million. The previous farm-in arrangement included a Stage 2 gross cost cap of A$65.3 million and a Stage 3 gross cost cap of A$48 million, or A$113.3 million in total. Under the Agreements, the Stage 2 and Stage 3 gross cost caps will be combined and increased by A$150.5 million to A$263.8 million. Northern Territory government approval remains outstanding; however, management expects this will be received in due course. Costs in excess of the cost cap of A$263.8 million will be funded in proportion to the participating interest of the joint venture partners.

On 19 January 2021 Falcon announced that Origin had submitted Notification of Discovery to the DITT on Kyalla 117, details of which are included on page 11. The early-stage flow rates are preliminary indications of well performance, and an EPT will be required to determine the long-term performance of Kyalla 117. Longer-term measures will be put in place to flow back sufficient hydraulic fracture stimulation water to allow Kyalla 117 to flow continually without assistance and if successful enable an EPT to continue in the coming months during the dry season. A further update will be provided when production testing has concluded, and detailed evaluation has been undertaken.

On 19 March 2021 the Joint Venture announced the planned 2021 work programme which is expected to include:

- Resumption of clean-up operations of Kyalla 117 N2-1H ST2 and if successful commence an extended production test;
- Drilling of the Velkerri 76 S2-1 vertical well; and
- A production test at Amungee NW 1H.

South Africa - Karoo Basin, South Africa

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

Hungary - Makó Trough, Hungary

As at 31 December 2020, 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.

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 work programme 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 31 December 2020 and 26 April 2021:

Class of securities	31 December 2020	26 April 2021
Common shares	981,847,425	981,847,425
Stock options[(i)]	35,333,334	44,000,000
Fully diluted common shares	1,017,180,759	1,025,847,425

(i) 29,333,334 stock options with an exercise price of CDN$0.11 were not exercised and expired on 14 January 2021. On 18 February 2021 38,000,000 stock options were granted, 21,500,000 at an exercise price of GBP£0.08 and 16,500,000 at an exercise price of GBP£0.12. The outstanding stock options at 26 April 2021 were 44,000,000. Details of stock options granted are included in the AIF on pages 8-9.

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

There were no related party transactions during the period.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company does not have any off-balance sheet arrangements, other than an office lease, which is deemed immaterial and payments with regards to overriding royalties as disclosed within section "Overriding Royalty Beetaloo Sub-basin exploration permits" on page 6. 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 31 December 2020 or 31 December 2019. The Group's sole financial instrument is a warrant. The Group has not entered into any contract for "other instruments" during 2020. The Group has no "other instruments" as at 31 December 2020 or 31 December 2019

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 2020 and 31 December 2019, and the changes therein for the periods then ended, are as follows:

	Total $'000
At 1 January 2019	479
Derivative gain – outstanding warrant	(369)
At 31 December 2019	110
Derivative gain unrealised – warrant	**(110)**
At 31 December 2020	**-**

The terms of the warrant were 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. The warrant was not exercised and expired on 13 January 2020.

NEW ACCOUNTING PRONOUNCEMENTS

The following were adopted on 1 January 2020 but have no material impact to the Group.

New Standards, Interpretations and Amendments effective for periods beginning 1 January 2020	Effective date
Amendments to IFRS 3 Business Combinations – Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020

Several new standards and amendments to existing standards and interpretations, which have been issued by the IASB, and which are expected to apply to the Group are not yet effective and have not been applied in preparing these financial statements. The Group does not expect the adoption of these new standards and interpretations, to have a material impact on the financial statements as they are neither relevant nor require accounting which is consistent with the Group's current accounting policies.

New Standards, Interpretations and Amendments applicable to future periods	Effective date
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IAS 37 regarding onerous contracts	1 January 2022
Amendments to IAS 16 regarding proceeds before intended use	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022

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 $40.4 million at 31 December 2020 (2019: $40.2 million). The Group has determined that there are no indicators of impairment present in accordance with IFRS 6 "Exploration for and evaluation of mineral interests" regarding its Australian exploration and evaluation assets.

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 7–11 of this document.

The Group does not believe the delay brought about by the moratorium on hydraulic fracturing impacted the carrying value of the asset. The inquiry concluded its work with the publication of a Final Report in March 2018 and was followed by the Northern Territory government's decision to lift the moratorium in April 2018.

Work re-commenced in 2019, the announcements during 2020 and 2021 along with the 2017 Discovery Evaluation Report from the Amungee NW-1H well as outlined in this document provide sufficient evidence to support the carrying value of the asset.

Furthermore, the Group does not believe that the current delay to Stage 2 given the unprecedented circumstances brought about by COVID-19 impacts the carrying value.

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.

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