



**Falcon Oil & Gas Ltd.**

Form 51-102F1  
Management's Discussion & Analysis  
For the Three Months Ended 31 March 2018

(Presented in U.S. Dollars)

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## **INTRODUCTION**

The following management's discussion and analysis (the "**MD&A**") was prepared as at 10 May 2018 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 ended 31 March 2018. This MD&A should be read in conjunction with the unaudited interim financial statements for the three months ended 31 March 2018 and 2017 and the audited consolidated financial statements and MD&A for the year ended 31 December 2017 and 2016.

The Company's independent auditors have not performed a review on the unaudited interim financial statements for the three months ended 31 March 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 2017 dated 11 April 2018 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at [www.sedar.com](http://www.sedar.com) and Falcon's website at [www.falconoilandgas.com](http://www.falconoilandgas.com).

## **Forward-looking statements**

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

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the Republic of Hungary, the Commonwealth of Australia, the Republic of South Africa and globally; supply and demand for petroleum and natural gas; industry conditions, including fluctuations in the price of petroleum and natural gas; governmental regulation of the petroleum and natural gas industry, including income tax, environmental and regulatory matters; introduction of a moratorium; fluctuation in foreign exchange or interest rates; risks and liabilities inherent in petroleum and natural gas operations, including exploration, development, exploitation, marketing and transportation risks; need to obtain regulatory approvals before development commences; environmental risks and hazards and cost of compliance with environmental regulations; aboriginal claims; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut-in or delayed; the ability of our industry partners to pay their proportionate share of joint interest billings; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisition of reserves, processing and transportation capacity, undeveloped land and skilled personnel; uncertainties inherent in estimating quantities of reserves and resources; the need to obtain required approvals from regulatory authorities; and the other factors considered under "**Risk Factors**" in Falcon's AIF dated 11 April 2018. 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.

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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.

<b>Page No.</b>	<b>Forward looking statements</b>	<b>Assumptions</b>	<b>Risk factors</b>
6	<p><i>Overview of the business and overall performance - About the Group</i></p> <p>This section of the document contains forward looking statements regarding the strategy of the Board of Directors of Falcon (the "<b>Board</b>") and the countries it believes support the exploitation of unconventional oil and gas.</p>	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	<p><i>Overview of the business and overall performance – Beetaloo Basin, Northern Territory, Australia - Overview</i></p> <p>"the Beetaloo Basin ..... is a relatively underexplored onshore exploration basin. The area is also remote and sparsely populated.... the Board believes the Beetaloo Basin has shale oil and shale gas potential."</p>	The Beetaloo Basin is relatively under-explored and has shale oil and shale gas commercial potential.	As the Beetaloo Basin is relatively under-explored it may not have shale oil and shale gas commercial potential.
7-8	<p><i>Beetaloo basin, Northern Territory, Australia – Transformational Farm out of Beetaloo unconventional acreage</i></p> <p>This section of the document from contains forward-looking statements pertaining to the work programme, expectations and bringing the project toward commerciality.</p>	The work programme will continue, and the project will be brought towards commerciality.	The risks are (1) Origin determines not to continue with the work programme and /or (2) the project is not brought to commerciality.
8-11	<p><i>Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity</i></p> <p>This section details results of drilling to date and Origin Energy Limited's ("<b>Origin</b>") notification of discovery and an initial report on discovery ("<b>Notification of Discovery</b>") submission to the Department of Primary Industry and Resources of the Northern Territory ("<b>DPIR</b>") on the Amungee NW-1H well and the contingent gas resource estimate they prepared.</p>	A discovery has been made and a material gas resource announced, the Beetaloo Basin will continue to be explored.	Despite the Notification of Discovery and the announcement of a material gas resource, commerciality may not be reached.
10	<p><i>Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity</i></p> <p>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 ("<b>OGIP</b>") of 496 trillion cubic feet ("<b>TCF</b>") over 16,145km<sup>2</sup>. The section also includes Origin's gross contingent resource estimate of 6.6TCF over 1,968km<sup>2</sup>.</p>	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	<p><i>Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity - Further information relating to disclosure of resources</i></p> <p>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.</p>	Resumption of work with our joint venture partner, Origin will start as soon as practical, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.	The risks are (1) there may be undue delay 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.

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<b>Page No.</b>	<b>Forward looking statements</b>	<b>Assumptions</b>	<b>Risk factors</b>
12-14	<i>Beetaloo basin, Northern Territory, Australia – Current Activity</i> This section of the document contains forward looking statements relating to the Group's activities and drilling results to date in the Beetaloo basin.	The Group has assumed that the nine well 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.
12-14	<i>Beetaloo basin, Northern Territory, Australia – Current Activity - Northern Territory Government Moratorium</i> 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.	Resumption of work with our joint venture partner, Origin will start as soon as practical, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.	There may be undue delay by the government in implementing the recommendations from the inquiry which would adversely impact the work programme.
15-16	<i>Karoo basin, South Africa – Technical Regulations &amp; Current Activity</i>  In both sections of the document, it is noted that the Eastern Cape High Court held that the Minister lacked the authority to promulgate the Regulations for Petroleum Exploration and Production.....South Africa remained committed to a shale gas industry and licenses could be issued in 2019.  The Board now expects that the exploration right over the acreage will be awarded in 2019.	The awarding of the exploration right over the acreage is estimated to occur in 2019.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.
24	<i>Liquidity and Capital resources – Going Concern</i> “....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.
24	<i>Liquidity and capital resources – Capital Expenditures – Australia – Beetaloo Basin, Northern Territory, Australia</i> This section of the document from “The Group is conducting a nine well drilling programme..... a revised timetable for the remaining work programme are being finalised with the DPIR.”	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 acquisition, 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 March 2018 of the Company's interest in Australia is \$39.6 million, while the Hungarian asset is nil due to a determination in 2014 that the estimated recoverable amount was insufficient to cover the carrying value of the asset. For the South African interest, costs associated with the technical cooperation permit are expensed as incurred.

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

### Summary of Operations

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

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

#### Notes:

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

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

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

### Beetaloo Basin, Northern Territory, Australia

#### Overview

Falcon Australia is one of the two registered holders of approximately 4.6 million gross acres (~ 18,619 km<sup>2</sup>), 1.4 million net acres, of three exploration permits in the Beetaloo Basin, Northern Territory, Australia. The Beetaloo Basin is located 600 kilometres south of Darwin, close to infrastructure including a highway, 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.

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The Beetaloo Basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Basin covers approximately 8.7 million acres (~ 35,260 km<sup>2</sup>) 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 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 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 Basin exploration permits**

On 1 November 2013, it was announced that Falcon Australia had entered an agreement ("CRIAG Agreement") with CR Innovations AG ("CRIAG") to acquire its 4% overriding royalty interest ("ORRI") relating to its exploration permits. On 17 December 2013, it was announced that Falcon Australia had entered an agreement ("TOG Agreement") with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("TOG Group") to acquire 7% (seven eighths) of their 8% private ORRI over the Beetaloo 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.

**Transformational Farm Out of Beetaloo unconventional acreage**

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

The transaction details were:

- Falcon Australia received A\$20 million cash from the Farminees.
- Origin was appointed as operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal programme over 2014 to 2018 inclusive, detailed as follows:
  - 3 vertical exploration/stratigraphic wells and core studies;
  - 1 hydraulic fracture stimulated vertical exploration well and core study;
  - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
  - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retained a 30% interest in the Permits.
- Farminees 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.

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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 2017 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.

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 2014 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 nine well programme.

Pending the outcome of the independent scientific inquiry established following the introduction of a moratorium on hydraulic fracturing, Origin requested a suspension of all drilling operations with the DPIR. The DPIR granted a 12-month extension due to the moratorium. In March 2018, the inquiry concluded its work with the publication of a Final Report. On 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Resumption of work with Origin will start as soon as practical, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.

***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 Basin, concluding the Beetaloo Basin an active petroleum system.

2015 saw the commencement of the work programme with the then Farminees as detailed previously in the "*Transformational Farm Out of Beetaloo unconventional acreage*" section. Three wells were drilled in 2015, 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. The results from the in-depth shale evaluation program and petrophysical analysis of the three wells drilled confirmed the following:

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

In 2016, the Beetaloo W-1 well was drilled to a TD of 3,173 metres. Preliminary evaluation of this vertical exploration well confirmed:

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

Conventional coring in the Lower Kyalla formation along with sidewall cores and extensive wireline logging in the Middle Velkerri formation enabled a full-scale evaluation of prospectivity in the southern part of the Beetaloo basin.

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2016 also saw the hydraulic stimulation of the horizontal Amungee NW-1H well. On the 29 September 2016, Falcon provided the following technical update:

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

On 12 October 2016, Falcon announced that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act. Details were as follows:

- Origin gathered sufficient data to confirm the discovery of a petroleum accumulation.
- Production test data supported by petrophysical log data along with full and sidewall core analysis confirmed the discovery.
- Gas rates ranged between 0.8 and 1.2 MMscf/d with continuing flow back of hydraulic fracture stimulation fluid of volumes between 100 and 400 barrels per day.
- Initial estimates suggested a dry gas composition with less than 4% CO<sub>2</sub>.
- Main physical properties of the discovered accumulation were thickness of 30 metres, between 4.0% and 7.5% porosity, a gas saturation range of 50% to 75%, and permeability between 50 and 500 nano-Darcy.
- Evaluation to determine the resource size was underway.

On **22 December 2016** Falcon announced the completion of the EPT on Amungee NW-1H by Origin.

Details of the EPT were as follows:

- Initial production over the first 30 days averaged 1.11 MMscf/d
- 63 MMscf was produced over the 57 days of the EPT, at an average rate of 1.10 MMscf/d
- The final rate of the EPT was 1.07 MMscf/d
- Completed in line with a regulatory approved plan with no environmental incidents
- The EPT concluded the 2016 drilling programme
- A final discovery report would be prepared for submission to the DPIR in Q1 2017.

On **15 February 2017** Falcon 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 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.

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Key Details of the Discovery Evaluation Report

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

<b>Middle Velkerri B Shale Volumetric Estimates as of 15 February 2017 <sup>(1)</sup></b>		
	<b>Gross</b>	<b>Net Attributable <sup>(2)</sup></b>
	<b>Best Estimate</b>	<b>Best Estimate</b>
Area km <sup>2</sup> <sup>(3)</sup>	16,145	4,751
Original Gas In Place ("OGIP") (TCF) <sup>(4)</sup>	496	146
Combined Recovery / Utilisation Factor <sup>(5)</sup>	16%	16%
Technically Recoverable Resource (TCF)	85	25
OGIP Concentration (BCF/km <sup>2</sup> ) <sup>(6)</sup>	31	31
<sup>1</sup> The Report and estimates included in the table above were not prepared in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH") <sup>2</sup> Falcon's working interest is 29.43%, net attributable numbers do not incorporate royalties over the permits <sup>3</sup> Area defined by a depth range at a maturity cut-off consistent with the dry gas window within the Beetaloo JV Permits (EP79, EP98, EP117) <sup>4</sup> Trillion cubic feet <sup>5</sup> 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. <sup>6</sup> 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.

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.

<b>Assessment of 2C Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117 as of 15 February, 2017<sup>1</sup></b>		
<b>Measured and Estimated Parameters</b>	<b>Units</b>	<b>Best Estimate</b>
Area <sup>2</sup>	km <sup>2</sup>	1,968
OGIP <sup>3</sup>	TCF	61.0
<b>Gross Contingent Resource<sup>4</sup></b>	TCF	6.6
<b>Net Contingent Resource<sup>4,5</sup></b>	TCF	1.98
<sup>1</sup> 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. <sup>2</sup> P50 area from the Contingent Resource area distribution <sup>3</sup> OGIP presented is the product of the P50 Area by the P50 OGIP per km <sup>2</sup> <sup>4</sup> Estimated gas contingent resource category of 2C. There is no certainty that it will be commercially viable to produce any portion of the resources <sup>5</sup> 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		

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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.

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

<b>Well Name</b>	Amungee NW-1H
<b>Permit / location</b>	EP98 (onshore Beetaloo Basin Northern Territory, Australia)
<b>Working interest in well</b>	Falcon 29.43%
<b>Product type</b>	Shale gas
<b>Geological rock type of formation drilled</b>	Organic rich shale (mudstone and siltstone)
<b>Depth of zones tested</b>	~2170-2190 metres below sea level
<b>Type of test</b>	Production test following hydraulic fracture stimulation
<b>Hydrocarbon phases recovered</b>	Gas (Approximate composition: methane ~92%, ethane+ ~3%, carbon dioxide and inerts ~5%)
<b>Flow rates and volumes</b>	Average rate (57 days): 1.1 MMscf/d, Final production rate: 1.07 MMscf/d, Cumulative production: 63 MMscf
<b>Number of fracture stimulation stages</b>	11 stages (average size ~ 100 ton per stage)
<b>Risks and level of uncertainty with recovery of resources</b>	<p>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.</p> <p>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.</p>
<b>Significant positive and negative factors relevant to the estimate</b>	<p>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, Atree-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.</p> <p>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.</p>
<b>Commerciality</b>	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.

### **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.

### Northern Territory Government Moratorium

On **14 September 2016**, Falcon noted the statement made by Chief Minister Michael Gunner of the Northern Territory in relation to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia. The Chief Minister stated that:

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

Following the moratorium, a scientific inquiry into hydraulic fracturing was established. On **12 December 2017**, Falcon noted the publication of the draft Final Report by the inquiry.

The Inquiry Chair, Justice Rachel Pepper noted the following in Community Update #26:

- The work of the Inquiry is to identify and assess the environmental, social, cultural and economic risks associated with hydraulic fracturing for any onshore shale gas.
- It is not the role of the Inquiry to make a recommendation whether or not the moratorium on hydraulic fracturing in the Northern Territory should be lifted, that is a matter for Government.
- The overall conclusion is that risk is inherent for an onshore shale gas industry. However, if the recommendations made in the Report are adopted and implemented in full, those risks may be mitigated or reduced - and in many cases eliminated altogether - to acceptable levels having regard to the totality of the evidence.

### Summary of draft Final Report

The summary of the draft 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 most current available scientific literature and 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 are manageable by, among other things:*

- *Releasing land that is environmentally, socially and culturally appropriate for use for shale gas development;*
- *The completion of a SREBA [strategic regional environmental and baseline assessment] to gather essential baseline data prior to any onshore shale gas industry being developed;*
- *Implementing an area or regional-based approval system;*

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- *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;*
- *Ensuring that the regulator is independent insofar as the agency that is responsible for promoting any onshore shale gas resource is not the same agency responsible for its regulation;*
- *Reforming the current regulatory framework governing onshore shale gas development in the NT to strengthen transparency and accountability of all decision-making and to ensure a stringent system of compliance and enforcement; and*
- *Introducing full fee recovery to fund the necessary regulatory reforms and to ensure that strong oversight is maintained.*

*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 the recommendations made in this Report are adopted and implemented, not only should the risk of any harm be minimised to an acceptable level, in some instances, it can be avoided altogether."*

On **27 March 2018**, Falcon noted the publication of the Final Report by the scientific inquiry into hydraulic fracturing.

Justice Rachel Pepper noted the following in Community Update #31:

- It was not the role of the Inquiry to recommend whether the moratorium on hydraulic fracturing in the Northern Territory be lifted, that is a political decision that rests with the Government alone.
- 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.*

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

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

- The decision by the NT government followed the independent scientific inquiry conclusion that not only could the risks associated with an onshore shale gas industry be minimised to an acceptable level, in some instances, they could be avoided altogether.
- Well testing completed just prior to the moratorium indicated a very promising material gas resource in the Beetaloo sub-basin. As detailed in our 15 February 2017 press release, a resource study based on the Amungee NW-1H well results and other key wells in the Beetaloo Basin estimated an OGIP of 61 TCF and 6.6 TCF gross contingent resource, over an area of 1,968 km<sup>2</sup>.
- Resumption of work with Origin will start as soon as practical, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.
- Origin plans to drill and fracture stimulate a further five wells to complete the exploration permit commitments.

Suspension of Drilling Operations

The Group had originally 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 nine well programme. Pending the outcome of the inquiry and the government decision, Origin requested a suspension of all drilling operations with the DPIR and were granted a 12 month extension. Work will now resume as soon as practical, adopting the recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.

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**Karoo Basin, South Africa**

***Overview***

The Company holds a TCP covering an area of approximately 7.5 million acres (~ 30,327 km<sup>2</sup>), 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***

***Regulations for Petroleum Exploration and Production***

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

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.

***Strategic Environmental Assessment ("SEA")***

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

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

***Fiscal Terms***

The Mineral and Petroleum Resources Development Act, 28 of 2002 empowers the Minister of Mineral Resources, when granting an exploration right, to direct the applicant to sell an interest to a Historically Disadvantaged South African ("**HDSA**"). The amount of the interest is, derived from the Liquid Fuels Charter, a policy instrument governing participation by HDSAs in the petroleum industry. It is a statutory condition for the grant of a production right that an HDSA holds a 10% interest in the operation. How HDSAs earn or pay for the 10% interest is not legislated, meaning applicants are free to negotiate terms with prospective HDSAs subject to the "unofficial approval" of the PASA.

State participation in exploration and production rights are not addressed in legislation. The practice has been for exploration rights to incorporate a clause giving the State an option to acquire an interest of up to 10% in any production right granted through the national oil company. The State is not required to pay any consideration for its interest or contribute to past costs but must contribute pro rata to its interest towards production costs going forward. On 12 March 2014, South Africa's parliament approved the Mineral and Petroleum Resources Development Amendment Bill ("**MPRDA Bill**") amending the Mineral and Petroleum Resources Development Act (28 of 2002). Among the proposed changes, it provides the state with a free carried interest of 20% in all new gas and oil exploration and production ventures. In addition, it introduced a new clause entitling it to further participation in the form of an acquisition at an agreed price or production sharing agreements with no percentage limit on this entitlement stated in the amendments. In Q2 2014, the then Minister requested the President of South Africa to delay the signing of the MPRDA Bill to investigate the matter further. The President of South Africa referred the MPRDA Bill back to the National Assembly for reconsideration in January 2015. On 4 November 2016 an updated MPRDA Bill was presented to a select committee of Parliament by the Department of Mineral Resources. Provincial meetings and public hearings relating to the updated MPRDA Bill commenced on 16 December 2016 and are ongoing.

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 to 5% in terms of a Double Tax Agreement (if applicable), or to 0% in respect of dividends paid by an oil and gas company out of amounts attributable to its oil and gas income. The 20% rate is effective from 22 February 2017, prior to this date the rate of dividend tax was 15%.

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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<sup>2</sup>), 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.

***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***

There have been no further updates since the PASA confirmed in Q1 2016 that it expected to finalise a recommendation to the Minister on Falcon's application for an exploration licence.

As noted under the Technical Regulations heading above, in 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.

The Board now expects that the exploration right over the acreage will be awarded in 2019.

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## **Makó Trough, Hungary**

### ***Overview***

Falcon has been active in the Makó Trough since 2005 when it acquired two exploration licences, the Makó and the Tisza exploration licences. In 2007, Falcon's subsidiary, TXM, was awarded the 35-year Makó Production Licence which covers some of the acreage originally covered by the Makó and the Tisza exploration licences.

### ***Makó Production Licence***

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

Under the terms of the licence, the Group is obliged to pay a 2% royalty to the Hungarian Government on any unconventional production and has a further 5% royalty payable to Prospect Resources Inc., the previous owners of the acreage.

Up to 31 December 2017 corporate profits were taxed at 19% on the part of the tax base which exceeded HUF500 million (approximately \$1.8 million); below that level a reduced rate of 10% applied. From 1 January 2017, corporate income tax was reduced to a single rate of 9%, which is applicable to all levels of net income. 2009 saw the introduction of an additional profit based energy industry tax which is levied on energy supplying companies. The rate is 31%, with deductions allowable for certain capital expenditures. TXM is the operator and there are no outstanding work commitments on the Makó Production Licence.

### ***Discoveries and Prospectivity***

The Makó Trough contains two plays:

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

### ***The Algyő Play***

The Algyő Play is a relatively shallow play between 2,300 and 3,500 metres deep. While wells have been drilled through the Algyő Play and encountered gas shows, none tested the shallow play at an optimal location, as they targeted the Deep Makó Trough. Multiple Algyő prospects have been identified by the Group through extensive amplitude versus offset analysis, and 3D seismic data showed the presence of possible gas zones above the Szolnok formation (part of the Deep Makó Trough).

In January 2013, Falcon agreed to a three-well drilling exploration programme with Naftna industrija Srbije jsc ("**NIS**"), 56% owned by Gazprom Group, to target the Algyő Play, with NIS making a cash payment of \$1.5 million to Falcon.

Only two of the three wells were drilled. Kút völgy-1 reached TD of 3,305 metres, with the well penetrating an alternating sequence of sandstones, siltstones and shales over a gross interval of 320 metres to TD, with gas shows throughout. Two conventional cores were taken and extensive wireline logs were run. Testing indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates and the well was plugged and abandoned.

Well testing on Besa-D-1, the second well, were completed in November 2014. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated well production did not meet commercial rates and the well was plugged and abandoned. In December 2015, Falcon signed a termination agreement with NIS, with NIS paying \$3.7 million to Falcon in fulfilment of its contractual obligations. Falcon retains a 100% interest in the Algyő Play.

### ***The Deep Makó Trough***

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

Between 2005 and 2007, Falcon acquired 1,100 km<sup>2</sup> 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.

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***Current activity***

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

**Alberta, Canada**

For the period ended 31 March 2018, Falcon earned \$1,000 (2017: \$3,000) in revenue from its Alberta, non-operating working interests (the "**Hackett Interest**"). Falcon's Alberta interests are in three producing and one shut-in, natural gas wells. Falcon does not anticipate further exploration or development of these wells, nor are further material revenue and costs expected.

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**RESULTS OF OPERATIONS**

This review of the results of operations should be read in conjunction with the unaudited unreviewed interim condensed consolidated financial statements for the three months ended 31 March 2018 and 2017 and, the audited consolidated financial statements for the year ended 31 December 2017 and 2016.

***Management's Discussion and Analysis of financial condition and results of operations for the three months ended 31 March 2018 as compared to the three months ended 31 March 2017***

The Company reported a net loss of \$0.7 million for the three months ended 31 March 2018 as compared to a net loss of \$3 million for the three months ended 31 March 2017. Changes between 2018 and 2017 were as follows:

	Three months ended 31 March		Changes	
	2018 \$'000	2017 \$'000	\$'000	%
<b>Revenue</b>				
Oil and natural gas revenue	1	3	(2)	-67%
	1	3	(2)	-67%
<b>Expenses</b>				
Exploration and evaluation expenses	(41)	(67)	26	-39%
Production and operating expenses	(4)	(3)	(1)	33%
Depreciation	-	(1)	1	-100%
General and administrative expenses	(504)	(477)	(27)	6%
Share based compensation	(59)	(283)	224	-79%
Foreign exchange gain	62	4	58	1450%
	(546)	(827)	281	-34%
<b>Results from operating activities</b>	<b>(545)</b>	<b>(824)</b>	<b>279</b>	<b>-34%</b>
Fair value loss – outstanding warrant	(56)	(2,120)	2,064	-97%
<b>Finance expense</b>				
Interest income on bank deposits	6	34	(28)	-82%
Accretion of decommission provisions	(55)	(48)	(7)	15%
Net foreign exchange (loss) / gain	(5)	3	(8)	267%
	(54)	(11)	(43)	391%
<b>Loss and comprehensive loss</b>	<b>(655)</b>	<b>(2,955)</b>	<b>2,300</b>	<b>-78%</b>

**Loss and comprehensive loss attributable to:**

Equity holders of the company	(655)	(2,954)	2,299	-78%
Non-controlling interest	-	(1)	1	-100%
<b>Loss and comprehensive loss</b>	<b>(655)</b>	<b>(2,955)</b>	<b>2,300</b>	<b>-78%</b>

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*Oil and natural gas revenue*

Oil and natural gas revenue of \$1,000 (2017: \$3,000) consists of the sale of natural gas from the Hackett Interest in Alberta, Canada. The Company has not yet realised significant revenue from its planned operations elsewhere.

*Exploration and evaluation expenses*

	Three months ended 31 March		Change	
	2018 \$'000	2017 \$'000	\$'000	%
Consulting, legal and other associated costs	-	(13)	13	(100)
Well related costs	(41)	(54)	13	(24)
	(41)	(67)	26	(39)

Exploration and evaluation expenses represent recurring maintenance and landowner costs in maintaining and safeguarding the Company's Hungarian wells along with exploration costs associated with the Company's TCP in South Africa. The decrease in costs quarter on quarter is primarily attributable to a reduction in maintenance work and employee costs in Hungary and the non-recurrence of costs associated with the Company's TCP in 2017.

*Depreciation*

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

*General and administrative expenses*

	Three months ended 31 March		Change	
	2018 \$'000	2017 \$'000	\$'000	%
Accounting and audit fees	(36)	(29)	(7)	24
Consulting fees	(13)	(17)	4	(24)
Legal fees	(2)	(4)	2	(50)
Investor relations	(49)	(21)	(28)	133
Office and administrative costs	(67)	(59)	(8)	14
Payroll and related costs	(273)	(271)	(2)	1
Directors' fees	(51)	(60)	9	(15)
Travel	(13)	(16)	3	(19)
	(504)	(477)	-27	6

General and administrative expenses increased by \$27,000 to \$0.5 million in 2018 from \$0.48 million in 2017. The main changes were as follows:

- Accounting and audit fees: Costs remain relatively consistent period on period. The movement is attributed to the release of an once off accrual in 2017 which was not required, there was no similar release in 2018 and hence the movement period on period.
- Consulting and legal fees: The overall decrease is due to the on-going focus on cost containment by management during the period.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. The increase for the three months ended 31 March 2018 in comparison with the same period in 2017 was the result of the appointment of RBC Capital Markets as joint broker to Falcon.
- Office and administrative expenses have increased in the period due to increased filing fees with the stock exchange. This is a result of the Group's increased market capitalisation during 2017 driven by favourable movements on the Company's share price due to the positive news on our Australian exploration asset. For further detail refer to pages 6 – 14 of this document.
- Travel decreased in the current three month period in comparison with the comparative three months to March 2017. Certain levels of travel and promotion costs are due to the international geography of the Group's assets and investor base.

*Share based compensation*

Share based compensation expense decreased in the three months ended 31 March 2018 compared to the same three months in 2017. In February 2017, 6 million options were granted, one third of which vested immediately with an

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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 gain*

The foreign exchange gain recorded in operating expenses for the three months ended 31 March 2018 and for the three month to 31 March 2017 is attributed to favourable movements to the US Dollar since 31 December 2017 and 31 December 2016 respectively.

*Fair value loss – outstanding warrant*

There is a fair value loss from the three months ended 31 March 2018 and 2017. The primary factor associated with this valuation was Falcon's share price (as quoted on the TSX-V), which moved from CDN9.0 cents at 31 December 2016 to CDN43.0 cents at 31 March 2017, resulting in a significant expense in the 2017 period. For the expense recognised for the three months ended 31 March 2018, it was driven by the movement in the share price increase from 31 December 2017 of CDN31.5 cents to CDN33.5 cents at 31 March 2018.

*Finance expense*

The overall movement in finance expenses period on period is related to an increase in accretion costs relating to the decommissioning provision for the Hungarian wells and a reduction in interest received from cash on deposit in the same period relative to 2017.

*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 March	
	2018	2017
	\$'000	\$'000
Net cash used in operating activities	(545)	(526)
Net cash generated by financing activities	-	458
Net cash generated by investing activities	3,034	804
<b>Change in cash and cash equivalents</b>	<b>2,489</b>	<b>736</b>
Effect of exchange rates on cash & cash equivalents	(1)	7
Cash and cash equivalents at beginning of period	2,967	5,857
<b>Cash and cash equivalents at end of period</b>	<b>5,455</b>	<b>6,600</b>
Cash on deposit – maturity greater than three months	3,000	3,500
	<b>8,455</b>	<b>10,100</b>

Cash and cash equivalents have decreased by \$1.1 million to \$5.5 million in 2018 from \$6.6 million in 2017. The main changes were as follows:

- Net cash used in operating activities: The increase is due to an increase in investor related costs and filing fees as discussed on page 20 of this document.
- Net cash generated from financing activities: Unlike the same period in 2017, there were no share options exercised in Q1 2018.
- Net cash generated in investing activities: The 2018 increase is due primarily to cash coming off deposit which had a maturity greater than three months before the period end date.

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**SUMMARY OF QUARTERLY RESULTS**

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

(In thousands of \$ unless otherwise stated)

<b>As of:</b>	<b>30 June 2017</b>	<b>30 September 2017</b>	<b>31 December 2017</b>	<b>31 March 2018</b>
Total assets	51,890	51,681	51,259	50,869
Exploration and evaluation assets	39,630	39,630	39,630	39,630
Working capital	7,130	6,610	6,793	6,189
Total shareholders' equity	38,607	38,115	38,284	37,688
<b>For the three months ended:</b>	<b>30 June 2017</b>	<b>30 September 2017</b>	<b>31 December 2017</b>	<b>31 March 2018</b>
Revenue	2	2	-	1
Loss	(266)	(770)	(5)	(655)
Loss attributable to common shareholders	(266)	(770)	(5)	(655)
Income per share-basic and diluted (cent)	(0.000)	(0.001)	(0.000)	(0.001)
<b>As of:</b>	<b>30 June 2016</b>	<b>30 September 2016</b>	<b>30 December 2016</b>	<b>31 March 2017</b>
Total assets	53,274	52,763	52,127	52,164
Exploration and evaluation assets	39,618	39,618	39,618	39,618
Working capital	10,326	9,974	9,458	7,289
Total shareholders' equity	41,926	41,561	40,875	38,662
<b>For the three months ended:</b>	<b>30 June 2016</b>	<b>30 September 2016</b>	<b>30 December 2016</b>	<b>31 March 2017</b>
Revenue	1	3	2	3
(Loss) / income	(1,053)	(586)	(770)	(2,955)
(Loss) / income attributable to common shareholders	(1,052)	(585)	(769)	(2,954)
(Loss) / income per share-basic and diluted (cent)	(0.001)	(0.001)	(0.001)	(0.003)

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

**Quarter 2 - 4 2016:** General and administrative ("G&A") expenses decreased in 2016. This was driven predominately by the relocation of the Dublin office and the associated saving with this. Further reductions were made through a reduction in advisor costs and close management of overall expenses incurred by the Group.

The Group's exploration and evaluation ("E&E") expenses also decreased relative to 2015 and was attributable to savings materialising from the restructuring the Group's technical function and the non-occurrence of costs incurred from the updating of the environmental management plan requested by the South African PASA.

**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 E&E asset in the Beetaloo 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 options to purchase 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.

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**Quarter 1 - 4 2017:** 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 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 due to the improved market capitalisation of the Group throughout 2017 driven by the positive news relating to our Australian E&E asset, further increases related to investor related expenses with the appointment of RBC Capital Markets as joint broker.

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

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

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## **LIQUIDITY AND CAPITAL RESOURCES**

### ***Going Concern***

For the year ended 31 December 2017, the Group incurred additional losses of \$4 million, had operating cash outflows of \$1.9 million and a retained deficit of \$390.2 million. For the three months ended 31 March 2018, the Group incurred losses of \$0.7 million, had operating cash outflows of \$0.6 million and had a retained deficit of \$390.9 million.

As at 31 March 2018 the Group had cash and cash on deposit of \$8.5 million.

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

### ***Working Capital***

Cash and cash on deposit as at 31 March 2018 was \$8.5 million, with minimal movement from \$9 million as at 31 December 2017. Working capital as at 31 March 2018 decreased to \$6.2 million from working capital of \$6.8 million as at 31 December 2017.

The increase to cash and cash equivalents was the result of net cash generated by investing activities of \$3 million, offset by net cash used in operating activities of \$0.6 million.

### ***Accounts Receivable***

Current accounts receivable as at 31 March 2018 were \$0.3 million, which includes \$0.1 million receivable and prepayments of \$0.2 million.

### ***Accounts Payables and Accrued Expenses***

Accounts payable and accrued expenses as at 31 March 2018 were \$0.9 million which includes \$0.2 million for accounts payable and \$0.7 million accrued expenditures.

### ***Capital Expenditures***

For the period ended 31 March 2018 the following expenditure commitments exist.

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

The Group is conducting a nine well drilling programme with its joint venture partner, Origin. The details are as follows:

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

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 has delayed the completion of the nine well programme.

Pending the outcome of the inquiry and the government decision, Origin requested a suspension of all drilling operations with the DPIR and were granted a 12 month extension. On 17 April 2018, the Northern Territory government announced they would be lifting the moratorium on hydraulic fracturing. Resumption of work with our joint venture partner, Origin will start as soon as practical, adopting recommendations of the scientific inquiry and obtaining necessary approvals to complete the remaining work programme.

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*South Africa - Karoo Basin, South Africa*

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

*Hungary - Makó Trough, Hungary*

As at 31 March 2018, the Group's cumulative expenditures for the Production License and Exploration Licenses, including the acquisition, seismic testing, drilling of exploratory wells, and initial testing and completion of wells, was approximately \$245 million.

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

**Lease commitments**

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

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

The Group's future minimum rental commitments under non-cancelable operating leases at 31 March 2018 and 31 December 2017 were as follows:

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	<b>As at 31 March 2018 \$'000</b>	As at 31 December 2017 \$'000
2018	<b>40</b>	46
Thereafter	<b>9</b>	10
<b>Total</b>	<b>49</b>	<b>56</b>

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**Debt and Equity Capital**

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

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## **DISCLOSURE OF OUTSTANDING SHARE DATA**

The following is a summary of the Company's outstanding share data as at 31 March 2018 and 10 May 2018:

<b>Class of securities</b>	<b>31 March 2018</b>	<b>10 May 2018</b>
Common shares	930,404,183	930,704,183
Stock options	42,233,334	41,633,334
Warrant	10,000,000	10,000,000
Fully diluted common shares	982,637,517	982,337,517

## **LEGAL MATTERS**

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

## **TRANSACTION WITH NON - ARMS LENGTH PARTIES AND RELATED PARTY TRANSACTIONS**

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

### *Senzus Kft*

On 1 January 2013, Senzus Kft. agreed the terms on which it would provide the geological services of Dr. Gábor Bada to TXM. The agreement was terminated on 28 April 2015. A separate agreement was entered into on 28 April 2015, which expired on 31 March 2016. The contract was renewed with an effective date of 1 April 2016 and was subsequently terminated on 28 February 2017. Senzus Kft. was paid a consultancy fee of \$0 for the period ended 31 March 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 period ended 31 March 2018 (2017: \$2,300).

### *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 \$3,300 for the period ended 31 March 2018 (2017: \$0).

### *Oakridge Financial Management Inc.*

The Group has engaged Oakridge Financial Management Inc. to assist in submitting returns to the Canadian Revenue Agency. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc. The Group has incurred costs of approximately CDN\$158 (2017: CDN\$170) to Oakridge Financial Management Inc. during the period ended 31 March 2018.

## **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 25 in this document) and payments with regards overriding royalties as disclosed within section "Overriding Royalty Beetaloo 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

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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 March 2018 or 31 December 2017.

The Group's sole financial instrument is a warrant. The Group has not entered into any contract for "other instruments" during 2018. The Group has no "other instruments" as at 31 March 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 recognized in the statement of operations and comprehensive loss as incurred.

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

The composition of the derivative liabilities as at 31 March 2018 and 31 December 2017, and the changes therein for the periods then ended, are as follows:

	Warrant \$'000	Total \$'000
At 1 January 2017	227	227
Derivative loss – outstanding warrant	1,336	1,336
At 31 December 2017	1,563	1,563
Derivative loss – outstanding warrant	56	56
<b>At 31 March 2018</b>	<b>1,619</b>	<b>1,619</b>

The terms of the warrant are as follows:

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

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

On 3 October 2017, Falcon announced the transfer of the warrant to acquire 10,000,000 common shares in the capital of Falcon by Hess Oil and Gas Holdings Inc. to Nicolas Mathys. The terms of the warrant remain unchanged, with an exercise price of CDN\$0.19 per share and an expiry date of 13 January 2020.

**NEW ACCOUNTING PRONOUNCEMENTS**

The Interim Condensed Consolidated Financial Statements ("Interim Statements") of the Group have been prepared in accordance with IAS 34 'Interim Financial Reporting' and, on the basis of the same accounting principles as, and should be read in conjunction with, the Consolidated Financial Statements for the year ended 31 December 2017 and 31 December 2016 (pages 9 to 14) as filed on the Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com).

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There are no amended accounting standards or new accounting standards that have any significant impact on the 31 March 2018 interim statements.

**BUSINESS RISKS AND UNCERTAINTIES**

Risks and uncertainties that could cause the actual results to materially differ from current expectations have not changed from those disclosed in the Company's AIF dated 11 April 2018.

**CRITICAL ACCOUNTING ESTIMATES**

Critical accounting estimates that could cause the Company's actual results to materially differ from current expectations have not changed from those disclosed in the Company's MD&A and Consolidated Financial Statements for the year ended 31 December 2017 and 2016.

**MANAGEMENT'S RESPONSIBILITY FOR MD&A**

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

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

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