



Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Three Months Ended 31 March 2021

(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 May 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 ended 31 March 2021. This MD&A should be read in conjunction with the unaudited interim financial statements for the three months ended 31 March 2021 and 2020 and the audited consolidated financial statements and MD&A for the years ended 31 December 2020 and 2019.

The Company's independent auditors have not performed a review on the unaudited interim financial statements for the three months ended 31 March 2021 and 2020.

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

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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 March 2021 of the Company's interest in Australia is \$40.2 million, while the Hungarian asset is nil due to a determination in 2014 that the estimated recoverable amount was insufficient to cover the carrying value of the asset. For the South African interest, costs associated with the technical cooperation permit are expensed as incurred.

Falcon is incorporated in British Columbia, Canada and headquartered in Dublin, Ireland. 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 (km²)
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.

Beetaloo Sub-basin, Northern Territory, Australia

Overview

Falcon Australia is one of the two registered holders of approximately 4.6 million gross acres (~ 18,619 km²), 1 million net acres, of three Exploration Permits in the Beetaloo Sub-basin, Northern Territory, Australia. The Beetaloo Sub-

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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 km²) 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 its 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 its 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.

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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 pages 10-11.

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 C₃, C₄ and C₅ 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.

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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.

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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 its 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 barrels per day with minor gas breakthroughs observed at that time.

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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% CO₂.
- 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.

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- 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 CO₂ as follows:

- C₁ = 65.03 mole percent ("mol%")
- C₂ = 18.72 mol%
- C₃ = 8.37 mol%
- iC₄ = 1.29 mol%
- nC₄ = 2.03 mol%
- C₅₊ = 2.73 mol%
- CO₂ = 0.91 mol%
- N₂ = 0.92 mol%

(C₁ methane, C₂ ethane, C₃ propane, C₃₊ Propane and heavier constituents of natural gas, iC₄ iso-butane, nC₄ n-butane, CO₂ carbon dioxide, N₂ nitrogen)

The elevated C₃₊ 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 km²), 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 km²), 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 Whitehill 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 km²), 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 km² 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 Makó Trough.

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Alberta, Canada

For the period ended 31 March 2021, Falcon earned \$2,000 (2020: \$1,000) 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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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 2021 and 2020 and, the audited consolidated financial statements for the years ended 31 December 2020 and 2019.

Management's Discussion and Analysis of financial condition and results of operations for the three months ended 31 March 2021 as compared to the three months ended 31 March 2020

The Company reported a net loss of \$1.3 million for the three months ended 31 March 2021 as compared to a net loss of \$1.4 million for the three months ended 31 March 2020. Changes between 2021 and 2020 were as follows:

	Three months ended 31 March		Changes	
	2021 \$'000	2020 \$'000	\$'000	%
Revenue				
Oil and natural gas revenue	2	1	1	100%
	2	1	1	100%
Expenses				
Exploration and evaluation expenses	(40)	(38)	(2)	5%
Production and operating expenses	-	(2)	2	-100%
General and administrative expenses	(466)	(403)	(63)	16%
Share based compensation	(565)	-	(565)	N/A
Foreign exchange loss	(155)	(28)	(127)	454%
	(1,226)	(471)	(755)	160%
Results from operating activities	(1,224)	(470)	(754)	160%
Fair value gain – warrant	-	110	(110)	-100%
Finance expense				
Interest income on bank deposits	1	14	(13)	-93%
Accretion of decommission provisions	(59)	(58)	(1)	2%
Net foreign exchange loss	(8)	(1,036)	1,028	-99%
	(66)	(1,080)	1,014	-94%
Loss and comprehensive loss	(1,290)	(1,440)	150	-10%
Loss and comprehensive loss attributable to:				
Equity holders of the company	(1,289)	(1,421)	132	-9%
Non-controlling interest	(1)	(19)	18	-95%
Loss and comprehensive loss	(1,290)	(1,440)	150	-10%

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Oil and natural gas revenue

Oil and natural gas revenue of \$2,000 (2020: \$1,000) consists of the sale of natural gas from the Hackett Interest in Alberta, Canada. 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.

Exploration and evaluation expenses

	Three months ended 31 March		Change	
	2021 \$'000	2020 \$'000	\$'000	%
Consulting, legal and other associated costs	(8)	(8)	-	0%
Well related costs	(32)	(30)	(2)	7%
	(40)	(38)	(2)	5%

Exploration and evaluation expenses relate to maintenance and landowner costs in maintaining and safeguarding the Company's Hungarian wells along with costs associated with the Company's TCP in South Africa. There was no material movement on costs period on period.

General and administrative expenses

	Three months ended 31 March		Change	
	2021 \$'000	2020 \$'000	\$'000	%
Accounting and audit fees	(48)	(28)	(20)	71%
Consulting fees	(11)	(13)	2	-15%
Legal fees	(7)	(7)	-	0%
Investor relations	(39)	(34)	(5)	15%
Office and administrative costs	(70)	(53)	(17)	32%
Payroll and related costs	(239)	(216)	(23)	11%
Directors' fees	(51)	(50)	(1)	2%
Travel and promotion	(1)	(2)	1	-50%
	(466)	(403)	(63)	16%

General and administrative expenses increased to \$0.47 million in 2021 from \$0.40 million in 2020. The main changes were as follows:

- Accounting and audit fees: Movement period on period is due to ad hoc tax consulting costs incurred in Q1 2021.
- Consulting and legal fees: The overall decrease period on period is due to management's on-going attention to cost containment.
- Investor relations: One of the main focuses of the Group's management is to actively engage with its shareholders and investors. There were minimal increases period on period.
- Office and administrative expenses have increased predominately due to insurance premium increases resulting from external market conditions.
- Travel and promotion have remained minimal period on period due to continued travel restrictions imposed by COVID-19.

Share based compensation

The share based compensation expense incurred for the three months to 31 March 2021 was \$565,000, there was no similar expense in 2020. The 2021 charge relates to the granting of 38 million share options on 18 February 2021, 21.5 million options were granted at an exercise price of GBP£0.08 and the remaining 16.5 million options at an exercise price of GBP£0.12, with one third vesting immediately, with an additional one third vesting on each subsequent anniversary with the options fully vested on 18 February 2023. The options have an expiry date of 17 February 2026.

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Foreign exchange loss

The foreign exchange loss recorded in operating expenses for the three months ended 31 March 2021 is attributed to unfavorable movements to the US Dollar since 31 December 2020. Similarly, there were unfavorable movements to the US Dollar in the same three-month period in 2020.

Fair value gain – warrant

There is no fair value gain from the three months ended 31 March 2021, the warrant was not exercised and expired in January 2020 and hence the unrealised gain recognised at 31 March 2020.

Finance expense

The favourable variance in finance expenses for 2021 relative to the same period in 2020 is predominantly related to movement in the foreign exchange loss to the US dollar period on period.

Loss attributable to non-controlling interest

The amounts reflected in 2021 and 2020 represent Falcon Australia's losses attributable to shareholders other than Falcon.

Cash flow

	Three months ended 31 March	
	2021	2020
	\$'000	\$'000
Net cash used in operating activities	(550)	(471)
Net cash generated by / (used in) investing activities	1	(22)
Change in cash and cash equivalents	(549)	(493)
Effect of exchange rates on cash & cash equivalents	(5)	(1,033)
Cash and cash equivalents at beginning of period	11,036	13,066
Cash and cash on equivalents at end of period	10,482	11,540

Cash and cash equivalents have decreased by \$1 million to \$10.5 million in 2021 from \$11.5 million in 2020. The main period on period changes were as follows:

- Net cash used in operating activities: The increase is due to the timing of payments and operational costs for certain activities in 2021.
- Net cash generated by / (used in) investing activities: The 2021 movement relates solely to interest income in the period whereas 2020 movement relates to movement in exploration and evaluation assets in the period offset by interest income received.
- Cash and cash equivalents decreased over the 12-month period mainly due to cash used in operating activities.

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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)

As of:

For the three months ended:	30 June 2020	30 September 2020	31 December 2020	31 March 2021
Revenue	1	1	2	2
Income / (loss)	199	(146)	(442)	(1,290)
Income / (loss) attributable to common shareholders	183	(150)	(442)	(1,289)
Income / (loss) per share-basic and diluted (cent)	0.000	(0.000)	(0.000)	(0.001)

For the three months ended:	30 June 2019	30 September 2019	31 December 2019	31 March 2020
Revenue	1	1	1	1
Income / (loss)	129	(764)	(59)	(1,440)
Income / (loss) attributable to common shareholders	127	(758)	(64)	(1,421)
Income / (loss) per share-basic and diluted (cent)	0.000	(0.001)	(0.000)	(0.001)

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

Quarter 2 2019

Exploration and evaluation ("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

General and administrative ("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.

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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.

Quarter 1 2021

The main contributor to cost increases for quarter 1 2021 was the share-based compensation expense resulting from the grant of 38 million share options in February 2021. G&A costs have increased on the same period in 2020 while foreign exchange losses have reduced on the three months to March 2020.

For further details of 2021/2020 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 22.

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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, had operating cash outflows of \$2.2 million, and a deficit of \$395.2 million. For the three months ended 31 March 2021, the Group incurred losses of \$1.3 million, had operating cash outflows of \$0.6 million and had a deficit of \$396.5 million.

As at 31 March 2021 the Group had cash and cash on deposit of \$10.5 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 approving the financial statements for the three months ended 31 March 2021 and 2020. 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 three months ended 31 March 2021. 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 at 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 equivalents at 31 March 2021 were \$10.5 million, with movement of \$0.5 million from \$11 million as at 31 December 2020. Working capital at 31 March 2021 decreased to \$10.1 million from working capital of \$10.4 million as at 31 December 2020.

The decrease to cash and cash equivalents was predominantly the result of cash used in operating activities of \$0.6 million.

Accounts Receivable

Current accounts receivable as at 31 March 2021 were \$0.2 million, which includes \$0.05 million receivable and prepayments of \$0.15 million.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at 31 March 2021 were \$0.5 million which includes \$0.1 million for accounts payable and \$0.4 million accrued expenditures.

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Capital Expenditures

For the period ended 31 March 2021 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.

Hungary - Makó Trough, Hungary

As at 31 March 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 Placées agreeing to subscribe for a total of 50,543,242 new Common Shares in Falcon at a Placing Price of £0.14 per Placing Share. The net proceeds of the Placing will primarily be used to fund Falcon's share of estimated capital expenditure in respect of the drilling and hydraulic fracture stimulation of four horizontal wells in the Beetaloo Sub-basin, Australia.

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DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at 31 March 2021 and 26 May 2021:

Class of securities	31 March 2021	26 May 2021
Common shares	981,847,425	981,847,425
Stock options ⁽¹⁾	44,000,000	44,000,000
Fully diluted common shares	1,025,847,425	1,025,847,425

⁽¹⁾ 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. Details of stock options granted are included in the AIF for the year ended 31 December 2020 dated 26 April 2021 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 operating leases which is deemed immaterial and payments with regards overriding royalties as disclosed within section "Overriding Royalty Beetaloo Sub-basin exploration permits" on page 6. The Company has no proposed transactions.

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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 March 2021 or 31 December 2020. The Group's sole financial instrument was a warrant which expired on 13 January 2020. The Group has not entered into any contract for "other instruments" during 2021. The Group has no "other instruments" as at 31 March 2021 or 31 December 2020.

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 2021 and 31 December 2020, and the changes therein for the periods then ended, are as follows:

	Warrant \$'000
At 1 January 2020	110
Derivative gain unrealised –warrant	(110)
At 31 December 2020	-
At 31 March 2021	-

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*	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 were 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 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 2020 (pages 10 to 16) as filed on the Canadian Securities Administrator’s System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

There are no amended accounting standards or new accounting standards that have any significant impact on the 31 March 2021 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 26 April 2021.

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 2020 and 2019.

COVID-19 PANDEMIC

On 11 March 2020, the World Health Organization (“WHO”) characterized the outbreak of a strain of the novel coronavirus (“COVID-19”) as a global pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. The Company has taken steps to ensure the health and safety of employees and that all safety guidelines as established by health authorities are met. On 26 March 2020 given the unprecedented circumstances brought about by COVID-19, the joint venture decided to temporarily pause activities in the Beetaloo Sub-basin, with the resumption of activities at Kyalla 117 in September 2020, full details are included on pages 8-9.

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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