Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Year Ended 31 December 2015

(Presented in U.S. Dollars)

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INTRODUCTION

The following management's discussion and analysis (the "**MD&A**") was prepared as at 28 April 2016 and is management's assessment of Falcon Oil & Gas Ltd.'s ("**Falcon**") financial and operating results and provides a summary of the financial information of the Company (as hereinafter defined) for the three months and year ended 31 December 2015. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2015 and 2014.

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 2015 dated 28 April 2016 can be found on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com and Falcon's website at www.falconoilandgas.com.

Forward-looking statements

Forward-looking statements include, but are not limited to, statements with respect to: the focus of capital expenditures; Falcon's acquisition strategy; the criteria to be considered in connection therewith and the benefits to be derived therefrom; Falcon's goal to sustain or grow production and reserves through prudent management and acquisitions; the emergence of accretive growth opportunities; Falcon's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; development costs and the source of funding thereof; the quantity of petroleum and natural gas resources or reserves; treatment under governmental regulatory regimes and tax laws; liquidity and financial capital; the impact of potential acquisitions and the timing for achieving such impact; expectations regarding the ability to raise capital and continually add to reserves through acquisition and development; the performance characteristics of Falcon's petroleum and natural gas properties; realisation of the anticipated benefits of acquisitions and dispositions; Falcon's ability to establish a broad institutional shareholder base in London, Dublin and Toronto and increase the volume of trading in common shares; 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; 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; 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; the need to obtain required approvals from regulatory authorities; and the other factors considered under "**Risk Factors**" in Falcon's AIF dated 28 April 2016. The forward-looking statements contained in this document are expressly qualified by this cautionary statement. Falcon disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulation.

In addition, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements.

The following table outlines certain forward looking statements contained in this MD&A and provides material assumptions used to develop such forward looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

Page No.	Forward looking statements	Assumptions	Risk factors
6	*Overview of the business and overall performance - About the Group* "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 of Directors of Falcon (the "**Board**") believes support the exploitation of unconventional oil and gas."	The countries in which the Group operates support the exploitation of unconventional oil and gas.	The countries in which the Group operates may change their regulatory environment which might adversely impact the exploitation of unconventional oil and gas resources.
7	*Overview of the business and overall performance – Beetaloo Basin, Northern Territory, Australia - Overview* "The area is remote and sparsely populated and the Board believes that it is well suited for oil and gas projects."	The area is well suited for oil and gas projects.	As the Beetaloo Basin is relatively under-explored it may not have shale oil, shale gas and basin centered gas accumulations ("**BCGA**") potential.
7	*Beetaloo basin, Northern Territory, Australia – Discoveries and prospectivity* "The Board believes that the Beetaloo Basin is relatively under-explored and has shale oil, shale gas and BCGA potential."	The Board believes that the Beetaloo Basin is relatively under-explored and has shale oil, shale gas and BCGA potential.	As the Beetaloo Basin is relatively under-explored it may not have shale oil, shale gas and BCGA potential.
8	*Beetaloo basin, Northern Territory, Australia –Transformational Farm out of Beetaloo unconventional acreage* This section in the document from "On 21 August 2014……..fracture stimulated wells." contains forward-looking statements pertaining to the intended work programme, near term expectations and bringing the project toward commerciality.	The work programme will continue as anticipated and the project will be brought towards commerciality.	The risks are (1) the work programme does not continue as planned and /or (2) the project is not brought to commerciality.
8-10	*Beetaloo basin, Northern Territory, Australia – Current Activity* This section of the document from "Kalala S-1 is the first of Falcon's fully funded and uncapped, 2015 three well drilling and evaluation programme in the Beetaloo Basin.…… commence immediately post drilling Beetaloo W-1 well." contains forward looking statements.	The Group has assumed that the nine well programme will continue as planned.	The risks are (1) the work programme does not continue as planned and /or (2) the project is not brought to commerciality.
12	*Karoo basin, South Africa - Current Activity* "The South African Department of Mineral Resources ("**DMR**") informed members of South Africa's parliament in October 2014 that the government was soon expected to issue companies with licences………………recommendation to the Minister of Mineral Resources on Falcon's application for a shale gas exploration licence in South Africa's Karoo Basin, by May 2016."	The awarding of the exploration right over the acreage will occur in 2016.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.
12	*Karoo basin, South Africa - Current Activity* "The Board now expects that the exploration right over the acreage will be awarded in 2016."	The awarding of the exploration right over the acreage will occur in 2016.	The finalisation of legislation and regulation in South Africa may be delayed or Falcon may not be awarded the licence.

Page No.	Forward looking statements	Assumptions	Risk factors
14	*Alberta, Canada* "Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred."	The Group does not intend to do any further exploration or development of these wells.	The Group may be called upon to increase its cash commitment to these wells, given its interest.
25	*Liquidity & Capital resources – Going concern* "….has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future."	The Group is a going concern.	Due to unforeseen expenditures, the Group may not have available cash to meet its liabilities as they fall due in the foreseeable future.
25	*Liquidity and capital resources – capital expenditures – Australia – Beetaloo Basin, Northern Territory, Australia* This section of the document from "The Group is conducting a nine well drilling programme with its farm-out partners…….. to be undertaken in 2018."	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 as planned and /or (2) the project is not brought to commerciality.
26	*Liquidity & Capital resources – capital expenditures - Hungary - Makó Trough, Hungary* "The Group is not planning any independent technical operations in Hungary, and as such no material capital expenditures are expected."	The Group is not planning any independent technical operations in Hungary.	Unforeseen circumstances might require the Group to conduct independent technical operations, or accelerated decommissioning operations in Hungary and incur material expense.
26	*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."	The Group will have continued access to raising funds in the capital markets.	The Group will have limited or no access to raising funds in the capital markets.
27	*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."	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.	The Company becomes involved in claims, disputes, litigation or other actions with third parties which could have a material adverse effect on its financial condition or results of operations.

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 and conventional 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.

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 of Directors of Falcon (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; and in Hungary, covering approximately 12.3 million gross acres in total.

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^2)**
Exploration Permit EP-76 (Beetaloo Basin, Northern Territory, Australia)	30 (i)	Origin (iii)	Exploration	1,891.3
Exploration Permit EP-98 (Beetaloo Basin, Northern Territory, Australia)	30 (i)	Origin (iii)	Exploration	10,316.0
Exploration Permit EP-117 (Beetaloo Basin, Northern Territory, Australia)	30 (i)	Origin (iii)	Exploration	6,412.0
Technical Cooperation Permit, (Karoo Basin, South Africa) (ii)	100	Falcon	TCP	30,327.9
Makó Production Licence (Makó Trough, Hungary)	100	TXM	Production	994.6

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

(ii) In compliance with the terms of the Technical Cooperation Permit ("**TCP**"), the Company submitted its application for an exploration permit in August 2010 prior to the moratorium being introduced in April 2011. 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 Energy Limited ("**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.

<u>Beetaloo Basin, Northern Territory, Australia</u>

Overview

Falcon Australia is one of the three registered holders of approximately 4.6 million gross acres (approximately 18,619 km^2), 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, two pipelines 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 Basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Basin covers approximately 8.7 million acres (approximately 35,260 km^2) and is a relatively underexplored onshore exploration basin with, as far as the Company is aware, 11 exploration wells drilled in the Beetaloo Basin to date. The area is remote and sparsely populated and the Board believes that it is well suited for oil and gas projects. Australia has a developed resources industry with a stable political, legal and regulatory system.

Exploration Permits
A summary of Falcon Australia's Beetaloo Exploration Permits is contained in the table on the previous page.

Three of Falcon Australia's then four Beetaloo Permits (EP-76, EP-98 and EP-117) were due for renewal at 31 December 2013. As part of the renewal process, Falcon agreed to relinquish approximately 26% of the three permits which were not considered to be core to the unconventional play in the Beetaloo Basin by Falcon, Origin and Sasol. The renewal of the three Permits was completed on 30 April 2014. Falcon Australia's fourth permit, EP-99, which was due for renewal at 31 December 2014 was surrendered as it too was not considered to be core to the unconventional play**.**

During the first term of the three permits, a significant work program was completed and a major work program is ongoing for the period of the renewal.

In accordance with local law and regulations, all Falcon Australia's acreage interests are subject to combined government 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. In addition, Falcon Australia is subject to Commonwealth Government corporation tax of 30%, and to the Commonwealth Government's Petroleum Resource Rent Tax ("**PRRT**") levied at the rate of 40% on the 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, Falcon announced that Falcon Australia had entered into an agreement (**"CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% overriding royalty interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin. On 17 December 2013, Falcon announced that Falcon Australia had entered into an agreement (**"TOG Agreement"**) with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire up to 7% (seven eighths) of their 8% private ORRI over Falcon Australia's exploration permits in the Beetaloo Basin. 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 Beetaloo farm–out with Origin and Sasol in August 2014. In addition, the Group has secured an agreement to acquire a further 3% based on two five year call options granted to Falcon Australia at a future combined cost to Falcon Australia and its Farminee partners, in their proportionate share of $20 million leaving only a 1% royalty in private hands.

Discoveries and Prospectivity
The Board believes that the Beetaloo Basin is relatively underexplored and has shale oil, shale gas and BCGA potential. As far as the Company is aware, 11 wells have been drilled in the Beetaloo Basin to date. This work was undertaken by a Rio Tinto Group subsidiary company exploring for conventional hydrocarbons and while not leading to a conventional development, the data from the cores demonstrated the presence of tight oil and gas and several horizons were shown to be prospective for unconventional oil and gas.

There are no existing fields but there are numerous mudlog oil and gas shows and oil indications on cores throughout the Beetaloo Basin in prospective formations. The Shenandoah-1 well was a vertical hole well drilled by Sweetpea Petroleum Pty Ltd. ("**Sweetpea**") in 2007. The well was deepened by Falcon Australia in 2009 to finish at 2,714 metres. It was re-entered in Quarter 3 2011 and five short tests were conducted including several fracking operations. Gas was recovered from three zones with some liquids.

During 2011 and 2012 Falcon Australia's previous joint venture partner, Hess Australia (Beetaloo) Pty. Ltd ("**Hess**"), acquired 3,490 kilometres of 2D seismic data investing approximately $80 million at no cost to Falcon. The seismic database, along with existing well data, provided a very solid platform to extrapolate a detailed structural and stratigraphic model for the main parts of the Beetaloo Basin. All the necessary elements of a productive unconventional and conventional petroleum system have been identified in multiple shales and sand reservoirs, and it is now clear that the Beetaloo Basin is an active petroleum system.

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 will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. This work is expected to be completed in 2015 – 2016.
- 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. This work programme is expected to be undertaken in 2017.
- 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. This work programme is expected to be undertaken in 2018.
- 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.

Current Activity
On 15 July 2015, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 is the first of Falcon's fully funded and uncapped, 2015 three well drilling and evaluation programme in the Beetaloo Basin. Kalala S-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. It is located within exploration permit 98, with access from the existing Carpentaria Highway. Rig 185, an ATS 400 was commissioned from Saxon Energy Services Australia Pty. Ltd, a Schlumberger company.

On 1 September 2015 Falcon announced that drilling operations had successfully concluded on the Kalala S-1 well, with the well drilled to a total depth ("**TD**") of 2,619 meters.

Preliminary evaluation of the Kalala S-1 vertical exploration well confirms:

- the presence of a thick Middle Velkerri source rock sequence in the Beetaloo Basin permit EP98, falling in a highly prospective gas mature depth window;
- a gross interval of over 500 meters shale gas with net pay exceeding 150 meters;
- the presence of moveable hydrocarbons in the form of elevated gas shows;
- a number of prominent good quality sandy/silty reservoir sections measuring between 50 and 80 meters in thickness, each representing potential candidates for horizontal drilling;
- excellent potential for gas mature, gas saturated and quartz rich source rocks that represent excellent exploration targets with material volumetric upside.

In addition to undertaking real time geochemical analysis of cuttings while drilling, extensive sidewall core and wireline data were also acquired. The integration of these data will enable the main physical properties of the penetrated rocks including rock type, total organic carbon ("**TOC"**), frackability (mineralogy, rock mechanics), petrophysics (porosity and permeability) and gas saturation to be characterised.

On 8 September 2015 Falcon announced the spudding of the second well, Amungee NW-1 well in the Beetaloo Basin, Australia. Amungee NW-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. On 22 October 2015 Falcon announced that drilling operations successfully concluded on the Amungee NW-1 well, with the well drilled to a TD of 2,611 meters.

Preliminary evaluation of the Amungee NW-1 vertical exploration well confirms:

- The continuation of the Middle Velkerri formation 25 kilometers east of the first 2015 Beetaloo Basin well drilled, Kalala S-1, falling in a highly prospective gas mature depth window;
- A gross interval of over 500 meters shale gas sequence with net pay exceeding 150 meters;
- Excellent gas shows from at least two prospective shale sweet spots within the Middle Velkerri formation;
- TOC estimates range 2.5-5% within the best shale units representing a highly encouraging result in comparison with commercially successful North American shale gas plays;
- Gas mature, highly saturated shale gas interval identified in the "B Shale" as immediate horizontal drilling target.

A total of 36 meters full diameter core, 50 sidewall cores and extensive wireline log data were acquired that, together with the highly positive data from the Kalala S-1 well, will enable an in-depth evaluation of the physical properties of the prospective shale intervals including gas saturation, TOC, reservoir pressure, frackability (mineralogy, rock mechanics) and petrophysics (porosity and permeability).

Following the encouraging results of the first two wells, Falcon and the Farminees brought forward the drilling of the first horizontal well in the Beetaloo Basin, originally planned for the end of 2016, into October - November 2015. Based on the high gas saturation and favourable shale properties encountered in the Amungee NW-1 vertical well, the "B Shale" Middle Velkerri has been selected as the target of a 1,000 meters horizontal section representing the "Amungee NW-1H" well.

The pertinent points to note regarding the horizontal well are the following:

- The purpose of drilling the Amungee NW-1H horizontal in 2015 and its subsequent multi-stage hydraulic fracturing in 2016 is to prove the technical viability of the highly prospective Middle Velkerri shale gas play;
- Amungee NW-1H will target the Middle Velkerri "B Shale" reservoir based on high gas saturation and excellent reservoir quality experienced in both the Kalala S-1 and Amungee NW-1 vertical wells;
- The "B Shale" is approximately 45 meters thick, a rock volume well suited to multiple hydraulic fracture stimulation;
- Falcon remains carried until the end of 2018 and this acceleration in the work program will have no financial impact on the Company.

It was also agreed to expand the exploration program by introducing Diagnostic Fracture Injection Tests ("**DFITs**") on all of the vertical wells drilled in 2015 and 2016. DFIT is the most adequate tool to obtain reservoir quality data, such as pressure and permeability and completion quality data, all pertaining to the prospectivity of the Middle Velkerri shale gas play. There is no cost impact on these additional positive measures for Falcon.

On 18 November 2015 Falcon announced the successful conclusion of drilling operations on the Amungee NW-1H horizontal well. Total measured depth was 3,808 metres, including a 1,100 metre horizontal section in the "B Shale" interval of the Middle Velkerri Formation. Results obtained are very encouraging.

Highlights of the preliminary results from the Amungee NW-1H horizontal exploration well:

- The Amungee NW-1H well, the first horizontal well drilled in the Beetaloo basin, illustrates the advancement and acceleration of the exploration program;
- Favourable shale properties extending from the Amungee NW-1 vertical well qualify the area as a prospective and laterally extensive sweet spot in the north of the Beetaloo basin;
- Excellent gas shows throughout indicate the likelihood of high levels of gas saturation across the entire horizontal section;
- Consistent lithology, clay mineral composition, and total gas readings recorded throughout the drilled "B Shale" section provides a very solid platform for multi-stage hydraulic fracturing planned for 2016.

The Amungee NW-1H well was suspended until the performance of the multi-stage hydraulic fracturing planned for 2016.

The JV's attention is now focussed on an in-depth shale evaluation program and petrophysical analysis of all the technical data gathered on the three wells drilled to date. This includes data obtained from the first DFIT successfully commenced on Kalala S-1 in November 2015.

Rig 185 is "warm stacked" on location in the Beetaloo basin allowing for an early commencement of the 2016 drilling program. The cost of stacking Rig 185 is borne by Origin and Sasol with no financial impact on Falcon.

On 9 March 2016 Falcon announced preparations are underway for the Group's 2016 Beetaloo drilling and testing programme.

On 28 April 2016 Falcon provided the following technical and operational update for its operations in the Beetaloo Basin, Australia.

2015 Drilling Programme - Technical Results
The results from the in-depth shale evaluation program and petrophysical analysis of the three wells drilled in 2015 confirm 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 meters 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 Content ("**TOC**") of 3%-4% and is gas saturated.
- Diagnostic Fracture Injection Test ("**DFIT**") 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 frackabability within the Middle Velkerri shale.
- Estimated gas in-place density ranges within the Middle Velkerri shales are comparable to successful North American shale plays.

2016 Drilling and Testing Programme - Objectives
The objectives of the 2016 Beetaloo drilling and testing programme comprise:

- Testing gas productivity of the Middle Velkerri shale from the horizontal Amungee NW-1H well by means of a multi-stage hydraulic fracture stimulation programme.
- Proving the areal extent of the Middle Velkerri shale gas play towards the southern part of the Beetaloo Basin, through the drilling and testing of the vertical Beetaloo W-1 well, which is to be located approximately 85km south of the Kalala S-1 and Amungee NW-1H wells; and some 35km south of the Shenandoah S-1 well.
- Testing of the shallower, condensate rich gas mature sections of the Middle Velkerri shale on the northern basin flank through drilling the second vertical well in 2016, located approximately 35km north of the Kalala S-1 and Amungee NW-1H wells within exploration permit ("**EP**") 98.
- Characterization of the Kyalla shale as a secondary target could provide upside and enhanced liquids potential.

2016 Drilling and Testing Programme - Operational Schedule
Preparations for the joint venture's 2016 drilling, testing and hydraulic stimulation programme are progressing and on schedule:

- Rig 185, commissioned from Saxon Energy Services Australia Pty. Ltd, has remained "warm stacked" at the Amungee NW-1H wellsite since November 2015 in order to commence operations as soon as weather conditions permit. Recomissioning of Rig 185 is expected to commence in mid-May 2016.
- Re-entering the horizontal Amungee NW-1H well is scheduled for mid-June 2016, followed by a multi-stage fracture stimulation programme to test the Middle Velkerri "B" shale reservoir.
- Civil works at the Beetaloo W-1 vertical well are expected to commence mid-May 2016 with spudding expected Quarter 3, 2016.
- The regulatory approval process for the drilling of the second vertical well within EP-98 is ongoing with spudding scheduled to commence immediately post drilling Beetaloo W-1 well.

Karoo Basin, South Africa

Overview

The Company holds a TCP covering an area of approximately 7.5 million acres (approximately 30,327 km^2), in the southwest Karoo Basin, South Africa, which grants the Company exclusive rights to apply for an exploration right over the underlying acreage. In August 2010, the Company submitted an application to the Petroleum Agency of South Africa ("**PASA**") for an exploration right over the acreage covered by the TCP and, as part of the application process, the Company submitted an environmental management plan in January 2011.

Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting in very limited modern hydrocarbon exploration onshore in South Africa.

Technical Regulations

On 1 February 2011, the Minister of Mineral Resources (the "**Minister**") published a notice in the Government Gazette declaring a moratorium on the processing of all new applications relating to the exploration and production of shale gas in the Karoo Basin. This moratorium did not extend to existing applications, such as Falcon's, that were submitted prior to 1 February 2011. The moratorium was subsequently superseded by a further notice published on 3 February 2014, which likewise excluded from its ambit applications submitted prior to 1 February 2011 subject to a condition that such applications, if granted, would not authorise hydraulic fracturing until regulations were in place to govern the process.

In addition, in May 2015, the South African government formally launched a 24-month strategic environmental assessment ("**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 will cover 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'.

On 3 June 2015, the Minister published the final Regulations for Petroleum Exploration and Production, which prescribe various technical and environmental standards for onshore hydraulic fracturing. The promulgation of the regulations means that exploration companies may now conduct hydraulic fracturing if all necessary statutory approvals are in place.

Fiscal Terms

The Mineral and Petroleum Resources Development Act, 28 of 2002 empowers the Minister of Mineral Resources, when granting an application for an exploration right, to direct the applicant to sell an interest in the operation to a Historically Disadvantaged South African ("**HDSA**"). The amount of the interest is, in practice, derived from the Liquid Fuels Charter, which is a policy instrument governing participation by HDSAs in the petroleum industry. At production stage of the project, it is a statutory condition for the grant of a production right that an HDSA holds 10% of the interest in the operation. The way in which HDSAs earn or pay for the 10% interest is not legislated, meaning that applicants are free to negotiate suitable terms with prospective HDSAs subject to the "unofficial approval" of the PASA. State participation in exploration and production rights is currently not addressed in legislation. In the past, 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. However, it is not required to pay any consideration for its 10% interest or contribute to past costs, but must contribute pro rata in accordance with 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**") which amends the Mineral and Petroleum Resources Development Act (28 of 2002), South Africa's main petroleum law. Among the proposed changes, the law provides the state with a free carried interest of 20% in all new gas and oil exploration and production ventures. In addition to this 20% free carried interest, the government introduced a new clause entitling it to further participation in the form of an acquisition at an agreed price or production sharing agreements. No percentage limit on this entitlement has been stated in the amendments. The MPRDA Bill only provides a framework and regulations must be promulgated to give effect to it. In Q2 2014, the then new Minister of Mineral Resources requested the President to delay the signature of the MPRDA Bill in order to give him time to investigate the matter. In January 2015, the President referred the MPRDA Bill back to the National Assembly for reconsideration.

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 15%, 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 South African Government is entitled to a royalty on the sale of mineral resources of up to 7% of gross sales (in the case of unrefined resources) and 5% of gross sales (in the case of refined resources, such as oil and gas).

Discoveries and Prospectivity

In its entirety, the Karoo Basin is approximately 173 million acres (approximately 700,000 km^2) in size located in central and southern South Africa and contains thick, organic rich shales such as the Permian Whitehill Formation. The Karoo describes a geological period lasting some 120 million years and the rocks laid down during that period of time, covering the late Paleozoic to early Mesozoic interval periods. These rocks were deposited in a large regional basin and resulted in the build-up of extensive deposits. Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting in very limited modern hydrocarbon exploration onshore in South Africa. In an independent report dated June 2013, the U.S. Energy Information Administration ("**EIA**") estimated that there are 390 trillion cubic feet ("**Tcf**") technically recoverable resources in the Karoo Basin which would rank it fifth in the World after China, USA, Argentina and Mexico for shale gas potential. In particular the Permian Ecca group contains three potential shales identified as having potential for shale gas. The shale in the Whitehall Formation, in particular, is ubiquitous, has a high organic content and is thermally mature for gas.

Cooperation agreement

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

Current activity

On 3 November 2014, Falcon was notified by the PASA that a decision has been taken to proceed with processing of the Company's application for a shale gas exploration licence in South Africa's Karoo Basin. The PASA had requested Falcon to review and update its already drafted Environmental Management Programme where necessary. This was completed and submitted on the 27 February 2015.

The DMR informed members of South Africa's parliament in October 2014 that the government was soon expected to issue companies with licences to explore for shale gas.

On 9 March 2016 Falcon announced that the PASA recently confirmed that it expects to finalise a recommendation to the Minister of Mineral Resources on Falcon's application for a shale gas exploration licence in South Africa's Karoo Basin, by May 2016.

The Board now expects that the exploration right over the acreage will be awarded in 2016.

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<u>Makó Trough, Hungary</u>

Overview
Falcon has been active in the Makó Trough since 2005 when it acquired two exploration licences, the Makó and the Tisza exploration licences. Between 2005 and 2007, Falcon pursued a work programme consisting of the acquisition of 1,100 km^2 of 3D seismic data and a six-well drilling programme. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. 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.

Hungary is an established oil and gas producing country. The Makó Production Licence is in the vicinity of the largest producing field in Hungary, the MOL Group owned and operated Algyő field, which has produced approximately 2.5 Tcf and 220 million barrels of oil to date. The Makó Production Licence is located approximately ten kilometres to the east of the MOL Group owned and operated Algyő field and is transected by existing gas pipelines and infrastructure, including a 12 kilometre gas pipeline built by Falcon in 2007, together offering transport and potential access to local markets and larger distribution centres for international markets.

Makó Production Licence
The Makó Production Licence was granted by the Hungarian Mining Authority over a gas exploration project in the Makó Trough, located in south-eastern Hungary. The lands within the Makó Production Licence were formerly part of the Group's two hydrocarbon exploration licences – the Tisza exploration licence and the Makó exploration licence.

The Makó Production Licence covers approximately 245,775 acres (approximately 1,000 km^2) and is held 100% by TXM, a wholly owned subsidiary of the Group. Under the terms of the Makó Production 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 under an agreement with Prospect Resources Inc., the previous owners of the acreage covered by the Makó Production Licence. Corporate profits are taxed at 19% on the part of the tax base which exceeds HUF500 million (approximately $1.8 million); below that a level reduced rate of 10% applies. In 2009, an additional profit based energy industry tax, levied on energy supplying companies, was introduced. The rate was originally set at 8% but, as part of Hungary's third package of austerity measures, the rate has increased to 31% from 2013, 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:
- a play targeting gas prospects in 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 of between 2,300 and 3,500 metres. A number of Falcon wells have been drilled through the Algyő Play in recent years, some of which encountered gas shows, but to date none of these wells tested the shallow play concept at an optimal location, as these wells targeted the Deep Makó Trough, at intervals of up to 6,000 metres. Multiple Algyő prospects have subsequently been identified by the Group through extensive amplitude versus offset analysis, and 3D seismic data has shown 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, whereby NIS made a cash payment of $1.5 million to Falcon in February 2013, and agreed to drill three wells by July 2014. This deadline was extended to 31 December 2014. For additional details refer to section "Current activity" below.

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

Between 2005 and 2007, Falcon acquired 1,100 km^2 of 3D seismic data and executed a six-well drilling programme on the Deep Makó Trough. Early exploration efforts focused on proving hydrocarbon potential and delineation of the basin in order to secure the Makó Production Licence. 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. In 2007, Falcon constructed a 12 kilometre gas pipeline which connected the Makó-6 and Makó-7 wells with a MOL operated pipeline, offering potential access to local and international markets.

Current activity
In January 2013, the Group and NIS agreed to a three-well drilling programme targeting the relatively shallow Algyő Play by July 2014, whereby NIS made a cash payment of $1.5 million and agreed to carry Falcon 100% over the programme. The July 2014 deadline for completion of drilling and testing of the three well programme was subsequently extended to 31 December 2014.

Drilling operations on Kútvölgy-1, the first joint well between NIS and the Group, were completed in July 2013, the well having reached TD of 3,305 metres. As anticipated, the top of the Algyő Formation was encountered at 2,985 metres, the well then 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.

As announced on 16 May 2014, the testing of Kútvölgy-1, indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates thus was discontinued with the well being plugged and abandoned.

Falcon announced on 27 November 2014 that well testing operations on the second well, Besa-D-1 were completed. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated that well production did not meet commercial rates with the well also being plugged and abandoned.

At 31 December 2014, an impairment test was completed on the assets in the Hungarian cost pool. The test demonstrated that the estimated recoverable amount of the exploration and evaluation assets and property, plant and equipment in the pool was insufficient to cover the carrying amount of these assets. The principal impairment indicator was the Company's ability to finance future exploration to commercially develop the asset. The capitalised value of the Group's Hungarian assets was impaired by $26.5 million at 31 December 2014.

On 26 January 2015, the Group announced the expiry of the extension granted to NIS, regarding their three-well drilling programme in Falcon's Makó Trough Licence in Hungary. The July 2014 deadline for completion of drilling and testing of the three-well programme was extended by Falcon to 31 December 2014 to enable NIS to fulfil its three well obligation. NIS had only drilled and tested two wells.

During Q1 2015, the Group placed US$2.0 million on deposit for the benefit of the Hungarian mining authority as a security deposit with regards the Group's decommissioning obligations.

On 3 December 2015, Falcon announced that it had signed a termination agreement with NIS terminating the Oilfield Services Contract entered into between the parties in January 2013. NIS agreed to pay $3.7 million to Falcon in fulfilment of its contractual obligations; this was received in December 2015. Falcon retains a 100% interest in the Makó Trough Licence in Hungary including the deep play.

On 9 March 2016 Falcon announced it continues to review its operation and future plans in Hungary, evaluating all options available to the Group to deliver shareholder value. The Group maintains its 100% interest in the Máko Trough.

Alberta, Canada

For the year ended 31 December 2015, Falcon had revenue of $7,000 (2014: $26,000) earned from its Alberta, Canada 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 any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred.

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SELECTED ANNUAL INFORMATION

(In thousands of $ unless otherwise indicated)	**2015**	**2014**	**2013**
For the year ended 31 December:			
Revenues	7	26	17
Net loss	(200)	(31,768)	(3,570)
Basic & diluted - Loss per share - $	(0.000)	(0.034)	(0.004)
Cash dividend per share	Nil	Nil	Nil
At 31 December:			
Total assets	54,894	55,353	89,516
Non-current liabilities	9,565	9,493	11,138

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

The net loss had consistently decreased from 2011 to Quarter 3 2014. This was attributed to the focus by the Group's new management (who commenced mid 2012) to reducing costs. In Quarter 4 2014 an impairment charge was recorded against the carrying value of the Group's Hungarian assets in the amount of $26.6 million. This is the primary reason for the increase in the loss from 2013 to 2014. The Group significantly reduced costs again in 2015, focusing on the retrenchment of its Hungarian operations. The losses for the twelve months ended 31 December 2015 were offset by the $3.7 million payment from NIS for the fulfilment of its contractual obligations.

In Q1, 2013, Falcon announced its application for admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange of the Company's existing share capital and an additional 120,381,973 new common shares in the capital of the Company issued pursuant to the concurrent conditional brokered private placement at a price of £0.14 (CDN$0.215) per share, raising gross proceeds of $25.7 million (£16.9 million). Falcon's liabilities have decreased since 2012 as the Group repaid the full amount outstanding on its convertible loan note of CDN$10.7 million from the proceeds raised in Q1, 2013. This repayment means that the Group is now completely debt free.

The remaining balance of the $25.7 million proceeds raised was used to partially finance the acquisition of certain minority holders' shares in Falcon Australia and fund working capital and exploration costs.

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

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RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2015 and 2014.

Management's Discussion and Analysis of financial condition and results of operations for the three months ended 31 December 2015 as compared to the three months ended 31 December 2014

The Company reported an income of $1.8 million for the three months ended 31 December 2015 as compared to a net loss of $27.8 million for the three months ended 31 December 2014. Changes between 2015 and 2014 were as follows:

	Three months ended 31 December		Changes	
	2015	**2014**		
	$'000	**$'000**	**$'000**	**%**
Revenue				
Oil and natural gas revenue	**1**	4	(3)	(75)
	1	4	(3)	(75)
Expenses				
Exploration and evaluation expenses	**(86)**	(256)	170	(66)
Production and operating expenses	**(5)**	(5)	-	-
Depreciation	**(14)**	(26)	12	(46)
General and administrative expenses	**(661)**	(929)	268	(29)
Share based compensation	**(27)**	75	(102)	(136)
Foreign exchange loss	**(898)**	(7)	(891)	12,729
Impairment	**-**	(26,526)	26,526	(100)
Restructuring expenses	**-**	(444)	444	(100)
	(1,691)	(28,118)	26,427	(94)
Other income	**3,593**	110	3,483	3,166
Results from operating activities	**1,903**	(28,004)	29,907	(107)
Fair value gain – outstanding warrants	**57**	377	(320)	(85)
Finance income / (expense)				
Interest income on bank deposits	**3**	13	(10)	(77)
Accretion of decommission provisions	**(31)**	(68)	37	(54)
Net foreign exchange loss	**(17)**	(112)	95	(85)
	(45)	(167)	122	(73)
Income / (loss) before taxation	**1,915**	(27,794)	29,709	(107)
Taxation	**(110)**	-	(110)	n/a
Income / (loss) and comprehensive income / (loss)	**1,805**	(27,794)	29,599	(106)
Income / (loss) and comprehensive income / (loss) attributable to:				
Equity holders of the company	**1,807**	(27,790)	29,597	(107)
Non-controlling interest	**(2)**	(4)	2	(50)
Income / (loss) and comprehensive income / (loss)	**1,805**	(27,794)	29,599	(106)

Oil and natural gas revenue
Oil and natural gas revenue of $1,000 (2014: $4,000) 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
Exploration and evaluation expenses represent recurring maintenance and landowners costs in maintaining and safeguarding the Group's Hungarian wells along with exploration costs associated with the Group's TCP in South Africa. The decrease in costs quarter on quarter is partially attributable to the Group's restructuring of its technical function in Budapest during Q4 2014.

Depreciation
The three months ended 31 December 2015 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office. The corresponding 2014 charge included depreciation of the Group's Budapest and Dublin offices. Depreciation reduced period on period due to impairment of capitalised Hungarian assets in 2014.

General and administrative expenses

	Three months ended 31 December		**Change**	
	2015	**2014**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	**(43)**	(84)	41	(49)
Consulting fees	**(14)**	(108)	94	(87)
Legal fees	**(36)**	(35)	(1)	3
Investor relations	**(116)**	(96)	(20)	21
Office and administrative costs	**(77)**	(163)	86	(53)
Payroll and related costs	**(255)**	(298)	43	(14)
Directors' fees	**(69)**	(67)	(2)	3
Travel and promotion	**(51)**	(78)	27	(35)
	(661)	(929)	268	(29)

General and administrative expenses decreased by $0.3 million to $0.7 million in 2015 from $0.9 million in 2014. The main changes were as follows:

- Accounting and audit fees: The decrease is due to focus on managing the costs of accounting and audit fees incurred by the Group and restructuring of the Group's Hungarian operations.
- Consulting and Legal fees: The decrease in consulting fees is attributable to a continued decrease in the use of outside consultants and increased 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 of the three months ended 31 December 2015 in comparison with the three months ended 31 December 2014 is purely timing of investor events. Overall costs for the year ended 31 December 2015 have reduced relative to the same twelve month period in 2014.
- Office and Administrative expenses have decreased due to the on-going focus on managing the costs incurred by the Group and in particular the effect of the restructuring of the Group's technical function in Budapest during Q4 2014.
- Travel and promotion decreased in the current three month period over the comparative three months to December 2014.There was reduced travel in the three month period in 2015 in comparison with quarter end December 2014. 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 increased in the three months ended 31 December 2015 in comparison to the three months ended 31 December 2014. The 3 months ended 31 December 2014 contains a credit for 1.9 million options forfeited in Q4 2014. Q4 2015 includes a charge for 3 million options granted in January 2015.

Foreign exchange loss
The foreign exchange loss recorded in operating expenses for the three months ended 31 December 2015 is attributed primarily to the revaluation of the Group's decommissioning provision.

Impairment
In January 2013, the Group and NIS agreed to a three-well drilling programme targeting the relatively shallow Algyő Play with a deadline for completion of work extended to the 31 December 2014 from the originally agreed date of July 2014.

Drilling operations on Kútvölgy-1, the first joint well between NIS and the Group, were completed in July 2013. Testing indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates thus was discontinued with the well being plugged and abandoned.

The well testing operations on the second well, Besa-D-1 were also completed. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated that well production did not meet commercial rates with the well also being plugged and abandoned.

Based on the above, management concluded that indicators of impairment were present at 31 December 2014. An impairment test was completed. The principal impairment indicator was the Company's ability to finance future exploration to commercially develop the asset. The capitalised value of the Group's Hungarian assets has been impaired by $26.5 million (which included $5.1 million which was classified as PPE) at 31 December 2014.

No similar impairment occurred in 2015.

Restructuring expenses
The Group restructured its technical function in Budapest during Quarter 4, 2014 to meet the changing needs to the Group. This resulted in a provision of $0.5 million. These provisions were utilised in 2015. No similar provisions were required in 2015.

Other Income
Other income has increased in the current period primarily due to the cash payment of $3.7 million made by NIS in December 2015 for the fulfilment of its contractual obligations.

Fair value gain – outstanding warrants
There is a decrease on the fair value gain from the three months ended 31 December 2014 to the three months ended 31 December 2015. The three months to 31 December 2014 consists of fair value movement of the hess warrant. The primary factor associated with this valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN15 cents at 30 September 2014 to CDN11.5 cents at 31 December 2014. For the similar three months in 2015, the valuation movement in the hess warrant was driven by the reduction in the share price from CDN13 cents at 30 September 2015 to CDN12.5 cents at 31 December 2015.

Finance expense
Net Finance expense saw movement from an expense of $0.2 million in 2014 to $0.05 million in 2015. The movement was primarily due a decrease in foreign exchange losses period on period, along with a decrease in the accretion expense.

Taxation
Taxation arose on profits generated in TXM primarily as a result of the NIS $3.7 million receipt which offset current year expenses incurred relating to ongoing activities in Hungary.

Loss attributable to non-controlling interest
The amounts reflected in 2015 and 2014 represent Falcon Australia's losses attributable to shareholders other than Falcon.

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RESULTS OF OPERATIONS

Management's Discussion and Analysis of financial condition and results of operations for the year ended 31 December 2015 as compared to year ended 31 December 2014

The Company reported a loss of $0.2 million for the year ended 31 December 2015 as compared to a loss of $31.8 million for the year ended 31 December 2014. Changes between 2015 and 2014 were as follows:

	Year ended 31 December		Changes	
	2015 $'000	2014 $'000	$'000	%
Revenue				
Oil and natural gas revenue	**7**	26	(19)	(73)
	7	26	(19)	(73)
Expenses				
Exploration and evaluation expenses	**(679)**	(852)	173	(20)
Production and operating expenses	**(20)**	(27)	7	(26)
Depreciation	**(39)**	(128)	89	(70)
General and administrative expenses	**(2,491)**	(4,046)	1,555	(38)
Share based compensation	**(256)**	(197)	(59)	30
Foreign exchange loss	**(143)**	(189)	46	(24)
Impairment	**-**	(26,526)	26,526	(100)
Restructuring expenses	**-**	(444)	444	(100)
	(3,628)	(32,409)	28,781	(89)
Other income	**3,594**	482	3,112	646
Results from operating activities	**(27)**	(31,901)	31,874	(100)
Fair value gain – outstanding warrants	**79**	883	(804)	(91)
Finance income / (expense)				
Interest income on bank deposits	**78**	49	29	59
Accretion of decommission provisions	**(123)**	(173)	50	(29)
Net foreign exchange loss	**(97)**	(626)	529	(85)
	(142)	(750)	608	(81)
Loss before taxation	**(90)**	(31,768)	31,678	(100)
Taxation	**(110)**	-	(110)	n/a
Loss and comprehensive loss	**(200)**	(31,768)	31,568	(99)
Loss and comprehensive loss attributable to:				
Equity holders of the company	**(193)**	(31,744)	31,551	(99)
Non-controlling interest	**(7)**	(24)	17	(71)
Loss and comprehensive loss	**(200)**	(31,768)	31,568	(99)

Oil and natural gas revenue
Oil and natural gas revenue of $7,000 (2014: $26,000) consists of the sale of natural gas from the Hackett Interest in Alberta, Canada. The Group has not yet realised significant revenue from its planned operations elsewhere.

Exploration and evaluation expenses
Exploration and evaluation expenses represent recurring maintenance and landowners costs in maintaining and safeguarding the Group's Hungarian wells along with exploration costs associated with the Group's TCP in South Africa. During the twelve months ended 31 December 2015, the Group has further updated its environmental management plan in South Africa. The costs have remained relatively consistent period on period. This is attributable to the Group's increased activity in South Africa and the ongoing review of its Hungarian wells. These increases are offset by reduced costs due to the Group's restructuring of the technical office in Budapest in Q4 2014.

Depreciation
The year ended 31 December 2015 depreciation expense consists of depreciating assets and equipment at the Group's Dublin office. The corresponding 2014 charge included depreciation of the Group's Budapest and Dublin offices. Depreciation reduced period on period due to impairment of capitalised Hungarian assets in 2014.

General and administrative expenses

	Year ended 31 December		Change	
	2015	**2014**		
	$'000	**$'000**	**$'000**	**%**
Accounting and audit fees	(226)	(384)	158	(41)
Consulting fees	(69)	(484)	415	(86)
Legal fees	(89)	(91)	2	(2)
Investor relations	(314)	(457)	143	(31)
Office and administrative costs	(369)	(722)	353	(49)
Payroll and related costs	(990)	(1,326)	336	(25)
Directors' fees	(276)	(279)	3	(1)
Travel and promotion	(158)	(303)	145	(48)
	(2,491)	(4,046)	1,555	(38)

General and administrative expenses decreased by $1.6 million to $2.5 million in 2015 from $4 million in 2014. The main changes were as follows:

- Accounting and audit fees: The decrease occurred due to focus on managing the costs of accounting and audit fees incurred by the Group.
- Consulting and Legal fees: The decrease is attributable to a continued reduction in the use of outside consultants and counsel and increased focus on cost containment by management during the period.
- Investor relations: Costs have decreased significantly period on period due to cost containment by management, and the rationalisation of professional services firms the Group engages with.
- Office and Administrative expenses have significantly decreased due to focus on managing the costs of office and administrative expenses incurred by the Group and the restructuring of the Group's Budapest office in Q4 2014.
- Payroll and related costs: The decrease is attributable to the retrenchment of operations in Hungary.
- Travel and promotion decreased year on year. 2014 costs included significant costs for travel relating to management's active engagement of its farm-out project in Australia. There was reduced travel in the same twelve month period in 2015. 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 increased in the year ended 31 December 2015 in comparison to the year ended 31 December 2014. The twelve months to 31 December 2014, contains the apportioned cost of the options granted in May 2012, the 9.9 million share options issued in April 2013 and the reversing cost of 4.9 million options granted in April 2013 which were forfeited in 2014. The twelve months ended 31 December 2015 contains a reduced charge for the 6 million options of May 2012 and a reduced charge for the 9.9 million options of April 2013 as 4.9 million of said options were forfeited in 2014. In addition, the twelve month period to 31 December 2015 includes a charge for the 6 million options granted in January 2015.

Foreign exchange loss
The decreased foreign exchange loss recorded in operating expenses for the year ended 31 December 2015 is attributed by the weakening Euro relative to the US Dollar in the 12 months since December 2014.

Impairment
In January 2013, the Group and NIS agreed to a three-well drilling programme targeting the relatively shallow Algyő Play with a deadline for completion of work extended to the 31 December 2014 from the originally agreed date of July 2014.

Drilling operations on Kútvölgy-1, the first joint well between NIS and the Group, were completed in July 2013. Testing indicated that the well experienced improved recovery from certain intervals however well production did not meet commercial rates thus was discontinued with the well being plugged and abandoned.

The well testing operations on the second well, Besa-D-1 were also completed. The testing of two sand intervals, both part of the tight turbiditic sequence in the lower Algyő Formation, indicated that well production did not meet commercial rates with the well also being plugged and abandoned.

Based on the above, management concluded that indicators of impairment were present at 31 December 2014. An impairment test was completed. The principal impairment indicator was the Company's ability to finance future exploration to commercially develop the asset. The capitalised value of the Group's Hungarian assets has been impaired by $26.5 million (which included $5.1 million which was classified as PPE) at 31 December 2014.

No similar impairment occurred in 2015.

Restructuring expenses
The Group restructured its technical function in Budapest during Quarter 4, 2014 to meet the changing needs to the Group. This resulted in a provision of $0.5 million. These provisions were utilised in 2015.

Other Income
Other income has increased in the current period primarily due to the cash payment of $3.7 million made by NIS in December 2015 for the fulfilment of its contractual obligations.

Fair value gain – outstanding warrants
The outstanding warrants decreased from a gain of $0.9 million in the twelve months ended 31 December 2014 to a gain of $0.1 million in the twelve months ended 31 December 2015. The twelve months to 31 December 2015 relates solely to the fair value movement of the hess warrant. The primary factor associated with this valuation was Falcon's share price (as quoted on the TSX-V) which moved from CDN11.5 cents at 31 December 2014 to CDN12.5 cents at 31 December 2015. The twelve month period to 31 December 2014 consists of a fair value loss of $0.1 million associated with increasing the term of the hess warrant to 13 January 2020 offset by a fair value gain of $1 million on expiration of 65 million private placement warrants in the twelve month period.

Finance expense
Net finance expense decreased from an expense of $0.8 million in 2014 to an expense of $0.1 million in 2015. The decrease occurred primarily due to reduced exposures to unfavourable foreign exchange rates on Australian dollar and Euro.

Taxation
Taxation arose on profits generated in TXM primarily as a result of the NIS $3.7 million receipt which offset current year expenses incurred relating to ongoing activities in Hungary.

Loss attributable to non-controlling interest
The amounts reflected in 2015 and 2014 represent Falcon Australia's losses attributable to shareholders other than Falcon.

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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:	**31 March 2015**	**30 June 2015**	**30 September 2015**	**31 December 2015**
Total assets	53,990	53,032	52,201	54,894
Exploration and evaluation assets	39,616	39,616	39,616	39,618
Working capital	10,137	9,109	8,773	11,555
Total shareholders' equity	43,091	41,755	41,392	43,227

For the three months ended:	**31 March 2015**	**30 June 2015**	**30 September 2015**	**31 December 2015**
Revenue	3	1	2	1
(Loss) / income	(237)	(1,376)	(392)	1,805
(Loss) / income attributable to common shareholders	(235)	(1,375)	(390)	1,807
(Loss) per share-basic and diluted (cent)	0.000	(0.001)	0.000	0.000

As of:	**31 March 2014**	**30 June 2014**	**30 September 2014**	**31 December 2014**
Total assets	88,389	87,172	86,007	55,353
Exploration and evaluation assets	74,720	74,869	61,431	39,619
Working capital	5,916	3,752	14,930	13,213
Total shareholders' equity	74,577	72,520	71,029	43,164

For the three months ended:	**31 March 2014**	**30 June 2014**	**30 September 2014**	**31 December 2014**
Revenue	10	7	5	4
Loss	(333)	(2,074)	(1,567)	(27,794)
Loss attributable to common shareholders	(329)	(2,069)	(1,556)	(27,790)
Loss income per share-basic and diluted (cent)	0.000	(0.002)	(0.002)	(0.030)

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 2014: On 2 May 2014, the Group announced that Falcon Australia, had executed the Agreements with Origin and Sasol, to each farm into 35% of Falcon's Exploration Permits in the Beetaloo Basin, Australia. The Agreements completed on 21 August 2014. Falcon Australia received A$20 million cash on completion.

Quarter 2 2014: Three (EP-76, EP-98 and EP-117) of Falcon Australia's then four Beetaloo Permits were due for renewal at 31 December 2013. As part of the renewal process, Falcon agreed to relinquish approximately 26% of the three Permits which was not considered to be core to the unconventional play in the Beetaloo Basin by Falcon, Origin and Sasol. The renewal of the three Permits was completed on 30 April 2014. Falcon Australia's fourth permit, EP-99, which was due for renewal at 31 December 2014 was surrendered as it too was not considered to be core to the unconventional play**.**

Quarter 3 2014: On 21 August 2014, the Group completed its Farm-Out Agreement and Joint Operating Agreement with Origin (appointed Operator) and Sasol, each farming into 35% of Falcon's exploration permits in the Beetaloo Basin, Australia. Falcon received A$20 million cash from the farminees.

Quarter 4 2014: At 31 December 2014, an impairment test was completed on the assets in the Hungarian cost pool. The test demonstrated that the estimated recoverable amount of the exploration and evaluation assets and property, plant and equipment in the pool was insufficient to cover the carrying amount of these assets. The principal impairment indicator was the Company's ability to finance future exploration to commercially develop the asset. The capitalised value of the Group's Hungarian assets was impaired by $26.5 million at 31 December 2014.

Quarter 1 2015: On 26 January 2015, the Group announced the expiry of the extension granted to NIS, regarding their three-well drilling programme in Falcon's Makó Trough Licence in Hungary. The July 2014 deadline for completion of drilling and testing of the three-well programme was extended by Falcon to 31 December 2014 to enable NIS to fulfil its three well obligation. NIS had only drilled and tested two wells.

On 27 January 2015 Falcon granted incentive stock options ("**Options**") to purchase an aggregate of 6 million common shares of Falcon to a number of recipients, including directors and officers under the stock option plan approved at Falcon's annual shareholders meeting held on 10 December 2014. A maximum of 10% of the issued and outstanding shares of Falcon are reserved for issuance pursuant to Falcon's stock option plan. The options were granted at an exercise price of CDN$0.15 (a 26% premium to the closing share price on 23 January 2015) to the following:

	Number of Options granted	Total number of Options held after grant
John Craven - Non-Executive Chairman	1,000,000	4,100,000
Philip O'Quigley - CEO	2,000,000	8,000,000
Michael Gallagher - CFO	3,000,000	3,300,000
Total	**6,000,000**	**15,400,000**

The Options granted to Mr. Craven and Mr. O'Quigley vested at the time of grant. The Options have an expiry date of 25 January 2020. The Options granted to Mr. Gallagher have a vesting schedule allowing for 1/3 of the Options to vest on the first anniversary of the grant with an additional 1/3 vesting on each subsequent anniversary until the Options are fully vested on 25 January 2018. The Options have an expiry date of 25 January 2020.

Quarter 2 2015: On 29 May 2015, the Group announced that drilling operations had commenced on its initial three well fully funded drilling campaign in the Beetaloo Basin. Civil works on the first well, "Kalala S-1" were under way. Kalala S-1 is located within exploration permit 98.

Quarter 3 2015: On 15 July 2015, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 is the first of Falcon's fully funded and uncapped, 2015 three well drilling and evaluation programme in the Beetaloo Basin.

On 1 September 2015 Falcon announced that drilling operations had successfully concluded on the Kalala S-1 well. Results encountered were encouraging, with the well drilled to a total depth ("**TD**") of 2,619 metres.

On 8 September 2015 Falcon announced the spudding of the second well, Amungee NW-1 well in the Beetaloo Basin, Australia. The well is located approximately 25 kilometres east of the first well drilled, Kalala S-1.

Quarter 4 2015: On 22 October 2015 it was announced that drilling operations successfully concluded on the Amungee NW-1 well. Results encountered are very encouraging, with the well drilled to a TD of 2,611 metres.

Following the encouraging results of the first two wells, it was decided to bring forward the drilling of the first horizontal well in the Beetaloo Basin, originally planned for the end of 2016, into October-November 2015.

On 18 November 2015 Falcon announced the successful conclusion of drilling operations on the Amungee NW-1H horizontal well. Total measured depth was 3,808 metres, including 1,100 metres horizontal section in the "B Shale" interval of the Middle Velkerri Formation. Results obtained to date are very encouraging.

On 3 December 2015, Falcon announced that it had signed a termination agreement with NIS terminating the Oilfield Services Contract entered into between the parties in January 2013. NIS agreed to pay $3.7 million to Falcon in fulfilment of its contractual obligations. This was received in December 2015. Falcon retains a 100% interest in the Makó Trough Licence in Hungary including the deep play. The $3.7million received less costs has been recorded as "other income" in the consolidated statement of operations and comprehensive loss at 31 December 2015.

Quarter 1 2016: On 18 January 2016 Falcon announced that on 15 January 2016 it granted incentive stock options ("Options") to purchase an aggregate of 38,700,000 common shares of Falcon to a number of recipients, including directors and officers under the stock option plan approved at Falcon's annual shareholders meeting held on 9 December 2015. The Option grant is subject to regulatory approval by the TSX Venture Exchange. A maximum of 10% of the issued and outstanding shares of Falcon are reserved for issuance pursuant to Falcon's stock option plan.

The Options were granted at an exercise price of CDN$0.11 being the closing share price on the TSX Venture Exchange on 15 January 2016. The following directors and officers were granted Options:

Name	Number of Options granted	Total number of Options held after grant
JoAchim Conrad – Non- Executive Chairman	4,000,000	4,700,000
Philip O'Quigley – CEO	12,000,000	20,000,000
Michael Gallagher - CFO	6,000,000	9,300,000
Daryl Gilbert – Non- Executive Director	2,500,000	3,200,000
Greg Smith – Non- Executive Director	2,500,000	3,200,000
Dr. György Szabó – Non Executive Director	2,500,000	4,000,000
John Craven - Non- Executive Director	2,500,000	6,300,000
Maxim Mayorets – Non- Executive Director	2,500,000	2,500,000

The Options granted have a vesting schedule allowing for 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 14 January 2018. The Options have an expiry date of 14 January 2021.

Quarter 2 2016: On 28 April 2016 Falcon provided a technical and operational update for its operations in the Beetaloo Basin, Australia. For details 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.

LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended 31 December 2015, the Group incurred additional losses of $0.2 million, had operating cash outflows of $3.4 million and a retained deficit of $382.6 million. For the year ended 31 December 2014, the Group incurred a loss of $31.8 million and had operating cash outflows of $5.3 million had a retained deficit of $382.3 million.

As at 31 December 2015 the Group had a cash balance including cash and cash on deposit of $12.7 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 the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing this financial information which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Working Capital

Cash and cash on deposit as at 31 December 2015 was $12.7 million, an decrease of $2.1 million from $14.8 million as at 31 December 2014. Working capital as at 31 December 2015 decreased to $11.5 million from working capital of $13.2 million as at 31 December 2014.

The increase to cash and cash equivalents was the result of net cash generated from investing activities of $5.6 million and net cash used in operating activities of $3.4 million.

Accounts Receivable

Current accounts receivable as at 31 December 2015 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 December 2015 were $1 million which includes $0.3 million for accounts payable and $0.7 million accrued expenditures.

Capital Expenditures

For the period ended 31 December 2015 the following expenditure commitments were incurred.

Australia - Beetaloo Basin, Northern Territory, Australia

The Group is conducting a nine well drilling programme with its farm-out partners. The details are as follows:

- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. This work is expected to be completed in 2015 – 2016.
- Farminees 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. This work programme is expected to be undertaken in 2017.
- 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. This work programme is expected to be undertaken in 2018.

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 December 2015, 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 entered into lease agreements for office space in:

- Budapest, Hungary which expires in July 2018; and
- Dublin, Ireland, with a break clause exercisable in October 2017.

The Group is obligated to pay the following minimum future rental commitments under non-cancelable operating leases at 31 December 2015 and 31 December 2014 during the following periods:

	As at 31 December 2015 $'000	As at 31 December 2014 $'000
2015	**-**	298
2016	**115**	118
2017	**97**	98
2018	**5**	-
Thereafter	**-**	-
Total	**217**	514

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 December 2015 and 28 April 2016:

Class of securities	**31 December 2015**	**28 April 2016**
Common shares	921,537,517	921,537,517
Stock options	31,440,000	69,940,000
Hess warrant	10,000,000	10,000,000
Fully diluted common shares	962,977,517	1,001,477,517

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 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. Senzus Kft. was paid a consultancy fee of $75,000 during the year ended 31 December 2015.

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$945 to Oakridge Financial Management Inc. during the year ended 31 December 2015.

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 26 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 depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has not designated any derivatives as hedges as at 31 December 2015 or 31 December 2014.

The Group has the following financial instrument – a warrant. The Group has not entered into contract for "other instruments" during 2015. The Group has no "Other Instruments" as at 31 December 2015 or 31 December 2014.

Warrants

Warrants which do not meet the criteria to be classified as an equity instrument are classified at fair value through the statement of operations and comprehensive loss and are recorded on the statement of financial position at fair value. Transaction costs are recognised in the statement of operations and comprehensive loss as incurred.

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

The composition of the derivative liabilities as at 31 December 2015 and 31 December 2014, and the changes therein for the periods then ended, are as follows:

	Private Placement Warrants $'000	Hess Warrant $'000	Total $'000
At 1 January 2014	949	448	1,397
Derivative (gains) / loss – outstanding warrants	(949)	66	(883)
At 31 December 2014	-	514	514
Derivative gain – outstanding warrant	**-**	**(79)**	**(79)**
At 31 December 2015	**-**	**435**	**435**

The term of the warrant is as follows:

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

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

NEW ACCOUNTING PRONOUNCEMENTS

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

Pronouncement	Issued date	Effective date
IFRS 9 Financial Instruments	July 2014	1 January 2018
IFRS 15 Revenue from Contracts with Customers	May 2014	1 January 2018
IFRS 16 Leases	January 2016	1 January 2019
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	May 2014	1 January 2016
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	May 2014	1 January 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) *(In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)	September 2014	—*
Annual Improvements 2012-2014	September 2014	1 January 2016
Disclosure Initiative (Amendments to IAS 1)	December 2014	1 January 2016
Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	January 2016	1 January 2017

CRITICAL ACCOUNTING ESTIMATES

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

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

Critical judgments

(i) Exploration and evaluation assets
The carrying value of exploration and evaluation assets was $39.6 million at 31 December 2015 (2014: $39.6 million). The Group has determined that there are no indicators of impairment present in accordance with IFRS 6 "Exploration for and evaluation of mineral interests" regarding its Australian exploration and evaluation assets.

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

The critical facts supporting the judgements are as follows:

Australia
On 21 August 2014, Falcon Australia completed its Farm-Out Agreement and Joint Operating Agreement with Origin and Sasol, (collectively the "Farminees") each farming into 35% of Falcon Australia's exploration permits in the Beetaloo Basin, Australia.

The transaction details were:

- Falcon Australia received A$20 million cash from the farminees.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal program over 2014 to 2018 inclusive.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retains a 30% interest in the Permits.
- Farminees will pay for the full cost of completing the first five wells estimated at A$64 million, and will fund any cost overruns. This work is expected to be completed in 2015 – 2016.
- 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. This work programme is expected to be undertaken in 2017.
- 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. This work programme is expected to be undertaken in 2018.
- 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 next two horizontally fracture stimulated wells.

On 15 July 2015, Falcon announced the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia. Kalala S-1 is the first of Falcon's fully funded and uncapped, 2015 three well drilling and evaluation programme in the Beetaloo Basin.

On 1 September 2015 Falcon announced that drilling operations had successfully concluded on the Kalala S-1 well. Results encountered were very encouraging, with the well drilled to a total depth ("TD") of 2,619 metres.

On 8 September 2015 Falcon announced the spudding of the second well, Amungee NW-1 well in the Beetaloo Basin, Australia. The well is located approximately 25 kilometres east of the first well drilled, Kalala S-1.

On 22 October 2015 it was announced that drilling operations successfully concluded on the Amungee NW-1 well. Results encountered are very encouraging, with the well drilled to a TD of 2,611 metres.

Following the encouraging results of the first two wells, it was decided to bring forward the drilling of the first horizontal well in the Beetaloo Basin, originally planned for the end of 2016, into October-November 2015.

On 18 November 2015 Falcon announced the successful conclusion of drilling operations on the Amungee NW-1H horizontal well. Total measured depth was 3,808 metres, including a 1,100 metre horizontal section in the "B Shale" interval of the Middle Velkerri Formation. Results obtained to date are very encouraging.

On 9 March 2016 it was announced that preparations for 2016 Beetaloo Basin, Australia, drilling programme are at an advanced stage.

Rig 185 is "warm stacked" on location in the Beetaloo basin allowing for an early commencement of the 2016 drilling program. The cost of stacking Rig 185 is being borne by Origin and Sasol with no financial impact on Falcon.

The work programme and the announcements during 2015 and 2016 provide evidence that there are no indicators of impairment present.

Critical estimates

(ii) Going concern

The consolidated financial statements have been prepared on the going concern basis. In considering the financial position of the Group, the Group has considered the forecasted operating and capital expenditures for the foreseeable future and cash flows relating to its financing. Forecasting those cash flows requires significant judgment when estimating expected operating expenditure, capital expenditure, decommissioning of suspended wells, expected monies to be received from potential farm-in partners and proceeds from share issuances.

(iii) Decommissioning Provision

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

MANAGEMENT'S RESPONSIBILITY FOR MD&A

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

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

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