ABN 53 132 857 008

Falcon Oil & Gas Australia Limited

Financial Report
Year Ended 31 December 2015

(Presented in U.S. Dollars)

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Operating and Financial Review

Beetaloo Basin, Northern Territory, Australia

Overview

Falcon Oil & Gas Australia Limited ("**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 gas 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

The following table summarises the principal oil and gas interests of the Company:

Assets	**Interest (%)**	**Operator**	**Status**	**Gross Area (km^2)**
Exploration Permit EP-76 (Beetaloo Basin, Northern Territory, Australia)	30	Origin (i)	Exploration	1,891.3
Exploration Permit EP-98 (Beetaloo Basin, Northern Territory, Australia)	30	Origin (i)	Exploration	10,316.0
Exploration Permit EP-117 (Beetaloo Basin, Northern Territory, Australia)	30	Origin (i)	Exploration	6,412.0

(i) Falcon Australia 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.

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 Australia 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 Australia, 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 on-going 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, it was 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. Falcon Australia 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, Falcon Australia 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.

Operating and Financial Review (continued)

Discoveries and Prospectivity

The Board believes that the Beetaloo Basin is relatively underexplored and has shale oil, shale gas and basin centered gas accumulations ("**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 Australia. 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 program 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 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.
- Framinees 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.

2015 activity

On 15 July 2015, the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia was announced. Kalala S-1 is the first of Falcon Australia'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 it was 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.

Operating and Financial Review (continued)

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 the spudding of the second well, Amungee NW-1 well in the Beetaloo Basin, Australia was announced. Amungee NW-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. On 22 October 2015 it was further 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 Australia 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 Australia.

On 18 November 2015 the successful conclusion of drilling operations on the Amungee NW-1H horizontal well was announced. 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.

Operating and Financial Review (continued)

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 is suspended until the performance of the multi-stage hydraulic fracturing planned for 2016.

The JV’s attention is now focused 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 the Kalala S-1 well earlier in November 2015.

On 9 March 2016 it was announced that preparations are underway for the Group’s 2016 Beetaloo drilling and testing programme, comprising:

- civil construction, the remobilisation of Rig 185 and the drilling of Beetaloo W-1, a vertical well in exploration permit (“EP”) 117 approximately 85km south of the wells drilled in 2015;
- the drilling of a second vertical well, the location of which is being finalised and the hydraulic stimulation of either this well or the Beetaloo W-1 well; and
- the re-entry and hydraulic stimulation of Amungee NW-1H in EP98.

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.

Philip O’Quigley
Chairman

27 April 2016

Directors' Report

The Directors have pleasure in submitting their Report together with the Financial Report of the Company and the auditor's report thereon for the year ended 31 December 2015.

All amounts referred to in this report and the accompanying Financial Report are in US dollars, unless stated otherwise.

Principal activities

The principal activity of the Company in the course of the period was exploration for oil and gas in the Beetaloo basin, Northern Territory, Australia.

Financial results

The net loss after income tax attributable to members of the Company for the year ended 31 December 2015 was $0.4 million (2014: loss of $1.27 million).

Dividends

There were no dividends paid or declared by the Company during the year ended 31 December 2015 (2014: nil).

State of affairs

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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 Australia.

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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 focused 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 the Kalala S-1 well 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.

There were no other significant changes in the state of affairs of the Company that occurred during the year under review.

Directors' Report (continued)

Directors and company secretary

The names of the persons who were Directors and Company Secretary at any time during the period ended 31 December 2015, the comparative year, and up to the date of the signing of this Financial Report are set out below. Unless indicated otherwise they served as directors for the entire period:

Name	Role	Date of appointment
Philip O'Quigley	Chairman & Executive Director	Appointed 1 May 2012
Michael Gallagher	Finance Director	Appointed 7 January 2015
John Carroll	Non - Executive Director	Appointed 31 July 2010
John Craven	Non - Executive Director	Appointed 10 December 2010
Stephen Peterson	Non - Executive Director and Company Secretary	Appointed 5 August 2008 as company secretary; Appointed 17 February 2014 as Non – Executive Director
Igor Akhmerov	Non - Executive Director	Appointed 15 September 2011 Resigned 16 December 2014
Kym Livesley	Non - Executive Director	Appointed 31 July 2010; Resigned on 17 February 2014

Details of Directors' and Company Secretary's Biographies are included in the Directors' and Company Secretary's Biographies section on pages 10 and 11 of the financial report.

Directors' meetings

The number of directors' meetings held, including meetings held by telephone, and the number of those meetings attended by each of the directors of the Company, while a director during the year ended 31 December 2015 were as follows:

	Board meetings	
	Number of meetings held	Number of meetings attended
Philip O'Quigley	2	1
Michael Gallagher	2	2
John Carroll	2	2
John Craven	2	2
Stephen Peterson	2	2

Written resolutions were provided by the Board members, for various significant matters, pertaining to the Company which occurred in 2015.

Operating and financial review

The operating and financial review of the Company during the year is detailed on pages 3 to 6 of this financial report.

Environmental regulation

The Company's operations are subject to Australian Commonwealth and Northern Territory environmental regulations and legislation. The Board believes the Company has adequate systems in place for the management of its environmental requirements and is not aware of any significant breach of those environmental requirements as they apply to the Company.

Directors' Report (continued)

Events subsequent to reporting date

There were no significant events after the reporting date.

Likely developments

Further to previous press releases, Falcon Australia along with its partners, Origin and Sasol are well advanced in preparations for the 2016 Beetaloo Basin drilling programme.

Further information as to likely developments in the operations of the Company and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Company.

Indemnification of officers and auditors

During or since the end of the financial year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company against a liability incurred by such an officer or auditor.

The Company has entered into a Directors and Officers Liability insurance policy. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability policy as such disclosures are prohibited under the terms of the policy.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 13 and forms part of the directors' report for the year ended 31 December 2015.

Signed in accordance with a resolution of the Board of Directors:

Phil O'Quigley

Philip O'Quigley
Chairman

27 April 2016

Directors' and company secretary's biographies

The following are the Directors' and Company Secretary's Biographies for individuals who held office at any time during 2015, and until the date of this report.

Philip O'Quigley – Chairman & Executive Director

Mr. O'Quigley is President and CEO of Falcon Oil & Gas Ltd, the parent company of Falcon Oil & Gas Australia Ltd, and brings 25 years' experience in senior management positions in the oil and gas industry. His career, which spans a number of London and Dublin listed exploration and production companies, includes experience working in countries such as Argentina, the United States, Algeria, the UK and Ireland. Most recently, he served as Finance Director for Providence Resources, an Irish oil and gas exploration and production company and he remains on the board of Providence Resources as a non - executive director. Mr. O'Quigley is a Fellow of the Institute of Chartered Accountants in Ireland and qualified as a Chartered Accountant with Ernst & Young in Dublin.

Michael Gallagher - Finance Director

Mr. Gallagher was appointed as Finance Director of Falcon Oil & Gas Australia Ltd in January 2015. Mr. Gallagher is also Chief Financial Officer of Falcon Oil & Gas Ltd, the parent company of Falcon Oil & Gas Australia Ltd. Mr. Gallagher joined Falcon in October 2012 as Group Financial Controller with responsibility for the Group's Dublin, Hungarian and Australian finance and commercial functions. Mr. Gallagher brings over a decade of experience working with PricewaterhouseCoopers ("PwC") in Ireland and the USA. At PwC, Mr. Gallagher had previously worked with and advised both quoted and unquoted Oil & Gas exploration and production companies. In addition, since September 2014, Mr. Gallagher has been a Member of the Accounting Council of the Financial Reporting Council ("FRC") which is responsible for accounting standards in the UK and Ireland. Mr. Gallagher is a Fellow of Chartered Accountants Ireland.

John Carroll – Non - Executive Director

Mr. Carroll is a private consultant specialising in government relations and major project facilitation and has more than 40 years' experience in a wide cross - section of public sector positions in Canberra, Queensland and the Northern Territory. Mr Carroll was Chief Executive Officer of the NT Department of Industries and Business from March 2000 until November 2001. Following that he was General Manager, Business and Trade Development, and Deputy Chief Executive and General Manager, Minerals and Energy, NT Department of Business Industries and Resource Development. In May 2005 he was appointed Chief Executive, NT Department of Primary Industry, Fisheries and Mines.

Prior to his time in the Northern Territory, Mr Carroll was Deputy Director - General, Business, Innovation and Trade in Queensland's Department of State Development. From 1996 he worked in that State's Department of Economic Development and Trade where he was Director - General until July 1998.

His earlier public sector appointments include managing the Business Regulation Review Unit in Queensland, Administration Manager, Australian National Gallery and a number of years at the Commonwealth Public Service Board, Canberra. Mr Carroll was President of the NT Branch of the Institute of Public Administration from 2001 to 2004 and in 2006/7. Mr Carroll was Falcon Oil & Gas Australia Ltd's country manager from 2008 to 2014. In November 2004 the National Council made him a Fellow of the Institute.

John Craven – Non - Executive Director

Mr. Craven has over 35 years of experience in technical, commercial, financial and leadership roles at major international upstream oil companies and junior independents. Mr. Craven is currently a Non Executive Director of Falcon Oil & Gas Ltd, the parent company of Falcon Oil & Gas Australia Ltd. He is the CEO of Discover Exploration Limited and his career has been noted for a series of successful new venture negotiations, the exploration of which led to major discoveries in Mozambique, Algeria, Colombia, offshore Ghana and Indonesia. Along with his co - directors, he led Ardmore Petroleum, Dana Petroleum, Petroceltic International and recently Cove Energy through the acquisition of major upstream assets and key exploration and developmental milestones. During this time Mr. Craven has been actively involved in corporate finance and was responsible for raising initial capital through private sources and floating Petroceltic International on the Irish Stock Exchange and Cove Energy on AIM. Mr. Craven holds an MSc in Petroleum Geology from the Royal School of Mines in London and an MBA from Queen's University in Belfast.

Directors' and company secretary's biographies (continued)

Stephen Peterson - Non - Executive Director and Company Secretary

Mr. Peterson who was appointed a director on 17 February 2014, has held the position of Company Secretary since the Company was established. His qualifications include a Bachelor of Economics with Honours from Sydney University and a Master of Commerce from the University of New South Wales. Mr. Peterson has over 30 years of experience in senior financial roles and as company secretary with listed public companies primarily in the Australian resources industry. Since 2005 he has operated a financial and administrative services business providing services on a long term contract basis to a number of companies in the resources industry. From 1997 to 2005 Mr. Peterson was the Chief Financial Officer of Austral Coal Limited, an underground coking coal producer located south of Sydney. Mr. Peterson has experience in the oil and gas industry having held a senior planning role with Delhi Petroleum Limited which operated in the Cooper Basin of South Australia.

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Directors' Declaration

In the opinion of the directors of Falcon Oil & Gas Australia Limited:

(a) the Company is not a reporting entity;

(b) the financial report and notes, set out on pages 16 to 30 are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of the Company as at 31 December 2015 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in Note 2; and

   (ii) complying with Australian Accounting Standards to the extent described in Note 2 and the Corporations Regulations 2001; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors:

Philip O'Quigley
Chairman

27 April 2016

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DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF FALCON OIL & GAS AUSTRALIA LIMITED

As lead auditor of Falcon Oil & Gas Australia Limited for the year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

Jarrad Prue
Director

BDO Audit (WA) Pty Ltd

Perth, 27 April 2016

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INDEPENDENT AUDITOR'S REPORT

To the members of Falcon Oil & Gas Australia Limited

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report of Falcon Oil & Gas Australia Limited, which comprises the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members.

The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Falcon Oil & Gas Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion the financial report of Falcon Oil & Gas Australia Limited is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards to the extent described in Note 2 and the *Corporations Regulations 2001*

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

BDO Audit (WA) Pty Ltd

BDO

J Prue

Jarrad Prue
Director

Perth, 27 April 2016

Falcon Oil & Gas Australia Limited
Statement of Profit or Loss and Other Comprehensive Income

	Notes	Year Ended 31 December 2015 $'000	Year Ended 31 December 2014 $'000
Revenue			
Oil and natural gas revenue		**-**	-
		-	-
Expenses			
General and administrative expenses	5	**(146)**	(460)
Foreign exchange		**22**	-
Other expenses		**(240)**	(240)
		(364)	(700)
Results from operating activities		**(364)**	(700)
Finance income	7	**-**	4
Finance expense	7	**(22)**	(574)
Net finance expense		**(22)**	(570)
Income tax expense		**-**	-
Net loss and comprehensive loss for the year		**(386)**	(1,270)

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Financial Position

	Notes	At 31 December 2015 $'000	At 31 December 2014 $'000
Assets			
Non - current assets			
Exploration and evaluation assets	8	**39,618**	39,619
Trade and other receivables	9	**22**	24
		39,640	39,643
Current assets			
Cash and cash equivalents	10	**16**	27
Trade and other receivables	11	**3**	22
		19	49
Total assets		**39,659**	39,692
Equity and liabilities			
Equity			
Share capital	12	**45,642**	45,642
Accumulated Losses		**(8,501)**	(8,115)
Total equity		**37,141**	37,527
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	14	**236**	287
Related party loans	15	**2,282**	1,878
Total liabilities		**2,518**	2,165
Total equity and liabilities		**39,659**	39,692

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Changes in Equity

	Note	Share capital $'000	Option Reserve $'000	Accumulated Losses $'000	Total Equity $'000
At 1 January 2014		43,559	2,083	(6,845)	**38,797**
Net loss for the year		-	-	(1,270)	**(1,270)**
Net loss and total comprehensive loss for the year		-	-	(1,270)	**(1,270)**
Expiry of options	13	2,083	(2,083)	-	**-**
At 31 December 2014		45,642	-	(8,115)	**37,527**
At 1 January 2015		45,642	-	(8,115)	**37,527**
Net loss for the year		-	-	(386)	**(386)**
Net loss and total comprehensive loss for the year		-	-	(386)	**(386)**
At 31 December 2015		**45,642**	**-**	**(8,501)**	**37,141**

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Cash Flows

	Notes	Year Ended 2015 $'000	31 December 2014 $'000
Cash flows from operating activities			
Net loss for the period		**(386)**	(1,270)
Adjustment for:			
Net finance expense	7	**22**	570
Other expenses		**240**	240
Changes in working capital			
Trade and other receivables		**19**	(6)
Accounts payable and accrued expenses		**(46)**	(244)
Other		**(22)**	-
Interest received	7	**-**	4
Net cash used in operating activities		**(173)**	(706)
Cash flows from investing activities			
Proceeds from farm-out transaction – Origin and Sasol		**-**	20,471
GST remitted on farm-out proceeds		**-**	(1,861)
Exploration and evaluation assets		**-**	(6,873)
Decrease in permit bonds		**-**	195
Net cash generated from investing activities		**-**	11,932
Cash flows from financing activities			
Proceeds from related party loans		**164**	3,662
Partial repayment of related party loans		**-**	(14,884)
Net cash from / (used in) financing activities		**164**	(11,222)
Change in cash and cash equivalents		**(9)**	4
Effect of exchange rates on cash on cash equivalents		**(2)**	(2)
Cash and cash equivalents at beginning of year		**27**	25
Cash and cash equivalents at end of year		**16**	27

The notes are an integral part of these financial statements.

1. General Information

Falcon Oil & Gas Australia Limited (the "'**Company**" or "**Falcon Australia**") is domiciled in Australia at Suite 4 Level 10, 3 Spring Street, Sydney, NSW 2000, Australia. The Company was incorporated on 21 August 2008. The Company is a for - profit entity and primarily is involved in oil and gas exploration. The parent entity, owning 98.1% of Falcon Australia is Falcon Oil & Gas Limited ("**Falcon**"), a Canadian entity.

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).

2. Accounting policies

The significant accounting policies adopted by the Company are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation and going concern

The Company's financial statements have been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The board has undertaken a detailed review of the Company's anticipated future working capital requirements. The Company's financial commitments are aligned with its farm - out agreement as described in the Operating and Financial Review.

The Company's ability to continue as a going concern in the foreseeable future is dependent upon the continued support of its 98.1% parent Falcon Oil & Gas Ltd. The 98.1% parent Falcon Oil & Gas Ltd, has committed to providing financial support to enable the Company to continue as a going concern for the foreseeable future.

The Company's acquisition and exploration expenditure has been primarily funded by way of loan from its parent entity, Falcon Oil & Gas Ltd. This loan is a $14 million facility. The facility carried an interest at a rate of Libor + 2% up to a maximum of 7% up until 1 July 2015. From 1 July 2015, the loan is interest free. The facility expires on 31 December 2018 as long as the Company remains a 98.1% subsidiary of Falcon Oil & Gas Ltd. The loan is repayable on demand.

The Directors are satisfied that the continued support of the parent company will enable the Company to successfully meet its cash capital requirements for the foreseeable future and as such have prepared the financial statements on a going concern basis.

In the longer term, the recoverability of the carrying value of the Company's long - lived assets is dependent upon the Company's ability to preserve its interest in the underlying petroleum and natural gas properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to obtain financing to support its exploration, development and production activities.

Statement of compliance

The special purpose financial report has been prepared in accordance with the requirements of the Corporations Act 2001 and the recognition and measurement aspects of all applicable Australian Accounting Standards ("**AASBs**") adopted by the Australian Accounting Standards Board ("**AASB**"). The directors have determined that the Company is not a reporting entity.

The financial report does not include the disclosure requirements of all AASBs except for the following minimum requirements.

- AASB 101 'Presentation of Financial Statements';
- AASB 107 'Cash Flow Statements';
- AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors';
- AASB 110 'Events after the End of the Reporting Period';
- AASB 1048 'Interpretation and Application of Standards'; and
- AASB 1054 'Australian Additional Disclosures'.

2. Accounting policies (continued)

A number of new standards, amendments to standards and interpretations, were effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing this financial report. The company has reviewed these standards and interpretations, and determined none of these standards and interpretations materially impact the company.

The financial report was authorised for issue by the directors on 27 April 2016.

Historical cost convention

The financial report is prepared on the historical cost basis with the exception of trade and other receivables that are initially recognised at fair value, and subsequently measured at amortised cost less accumulated impairment losses.

Functional and presentation currency

The financial report is presented in United States dollars ("**$**"), which is the Company's functional currency. All amounts are rounded to the nearest $'000 unless otherwise stated. "**A$**" where referenced in the financial report represents Australian Dollars.

Overriding Royalty Interest

A financial liability will arise in relation to the overriding royalty interests on the Company's Exploration licence when it becomes likely that an obligation will exist, which would occur when production commences.

Call options

A financial liability will be recognised in relation to call options to reacquire overriding royalty interests on the Company's exploration assets when these become contractual under the agreement.

Financial assets

The Company classifies its financial assets in the following categories: at fair value through the Statement of Profit or Loss and Other Comprehensive Income, loans and receivables and available - for - sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through the Statement of Profit or Loss and Other Comprehensive Income
Financial assets at fair value through the Statement of Profit or Loss and Other Comprehensive Income are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purposes of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Asset in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non - current.

(ii) Loans and receivables
Loans and receivables are non - derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. They are initially recognised at fair value and subsequently recorded at amortised cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non - current assets. The Company's loans and receivables comprise "cash and cash equivalents" and "trade and other receivables" in the statement of financial position.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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 Company has not designated any derivatives as hedges as at 31 December 2015 or 31 December 2014.

2. Accounting policies (continued)

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. Changes in the fair value of separable embedded derivatives are recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Intangible exploration assets

(i) Recognition and measurement

*- Exploration and evaluation ("**E&E**") expenditures*

Pre - license costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of exploration and evaluation expenses as incurred.

E&E costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalised as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability i.e. area of interest.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash - generating units.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable when proven reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven reserves have been discovered. Upon determination of proven reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as oil and natural gas interests.

Proceeds from disposal or farm - out transactions of intangible exploration assets are used to reduce the carrying amount of the assets. When proceeds exceed the carrying amount, the difference is recognised as a gain. When the Company disposes of its' full interests, gains or losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

- Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash - generated units (**"CGU's"**) for impairment testing. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount and are recognised net within "other income" or "other expenses" in the Statement of Profit or Loss and Other Comprehensive Income.

(ii) Subsequent costs
Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognised as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognised in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

Such capitalised oil and natural gas interests generally represent costs incurred in developing proved and / or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognised. The costs of the day - to - day servicing of property, plant and equipment are recognised in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

2. Accounting policies (continued)

Leased assets

Operating leases are not recognised on the Company's statement of financial position.

Payments made under operating leases are recognised in the Statement of Profit or Loss and Other Comprehensive Income on a straight - line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Impairment

(i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(ii) Non - financial assets
The carrying amounts of the Company's non - financial assets, other than E&E assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the cash - generating unit (**"CGU"**). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre - tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

E&E assets are allocated to related CGU's when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Impairment losses recognised in respect of CGU's are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre - tax rate

2. Accounting policies (continued)

that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognised for future operating losses.

(i) Decommissioning provisions
The Company's activities give rise to dismantling, decommissioning and site disturbance re - mediation activities. Provision is made for the estimated cost of site restoration and capitalised in the relevant asset category.

Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognised as finance costs whereas increases / decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

Finance income and expenses

Financing costs comprise interest payable on borrowings calculated using the effective interest method, and interest earned.

Interest income is recognised as it accrues in the Statement of Profit or Loss and Other Comprehensive Income, using the effective interest method.

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings on an effective interest basis.

Foreign currency gains and losses, reported under finance income and expenses, are those related to financing items.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ("**GST**"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Tax office ("**ATO**") is included as a current asset or liability in the statement of financial position.

2. Accounting policies (continued)

Cash flows are included in the statement of cash flows on a gross basis unless otherwise indicated.

3. Critical accounting estimates and judgements

Preparation of financial report requires a significant number of judgemental assumptions and estimates to be made. This impacts the income and expenses recognised in the Statement of Profit or Loss and Other Comprehensive Income 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 Company'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 Company has determined that there are no indicators of impairment present in accordance with AASB 6 "Exploration for and evaluation of mineral interests" and thus impairment evaluations were not performed on the asset.

Management's conclusion that no facts or circumstances exist that suggested the exploration and evaluation assets may be impaired required judgment based on experience and the expected progress of current exploration and evaluation activities.

Preparation for Falcon Australia's 2016 Australian drilling programme is at an advanced stage. This includes a multi-stage hydraulic fracturing of Amungee NW-1H well which was suspended in 2015.

The JV's attention is focused 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 the Kalala S-1 well 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.

The work programme supports the carrying value of the asset and therefore no indicators of impairment exist.

Critical estimates

(ii) Going concern
The financial statements have been prepared on the going concern basis. In considering the financial position of the Company, the Company 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 and the continued support of the parent company.

4. Standards, Interpretations and amendments to published standards that are not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. The Company does not plan to adopt these standards, early and the extent of the impact has not been assessed yet.

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5. General and administrative expenses

General and administrative expenses costs of:

	Year ended 31 December	
	2015	2014
	$'000	$'000
Accounting and audit fees	**34**	66
Consulting fees	**32**	202
Legal fees	**-**	2
Office and Administrative costs	**19**	39
Directors' fees	**30**	35
Travel and promotion	**31**	116
	146	460

6. Auditors' Remuneration

	Year ended 31 December	
	2015	2014
	$'000	$'000
Audit of financial report – BDO	**17**	13
Tax fees - BDO	**9**	27
	26	40

The Company's auditors changed in 2014. With effect from 9 January 2014, BDO Audit (WA) Pty Ltd. of Subiaco, Western Australia ("**BDO**") was appointed as Company auditor. The incumbent, KPMG of Brisbane, Queensland, Australia ("**KMPG**") resigned effective 9 January 2014. The above amounts are stated excluding expenses and GST.

The Company has considered the non – audit tax services provided during the year by the auditor. The Company is satisfied that the provision of those non – audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporation Act 2001 for the following reasons:

- all non – audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed to ensure they do not impact the integrity and objectivity of the auditor; and
- the non – audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

7. Finance expense

	Year ended 31 December	
	2015	2014
	$'000	$'000
Finance income		
Interest income	**-**	4
	-	4
Finance expense		
Effective interest on loans and borrowings	**(22)**	(204)
Net foreign exchange loss	**-**	(370)
	(22)	(574)
Net finance expense	**(22)**	(570)

Interest costs noted above relate to the related party loan (refer to note 15). The interest owing has been recognised within the outstanding loan balance.

8. Exploration & Evaluation assets

	Year ended 31 December	
	2015	2014
	$'000	$'000
Opening balance at 1 January	**39,619**	51,444
Additions	**-**	6,785
Disposals	**(1)**	-
Farm out: net costs	**-**	(18,610)
Balances as at 31 December	**39,618**	39,619

E&E assets consist of the Company's exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company's costs incurred on E&E assets during the period.

The impairment of intangible exploration assets, and any eventual reversal thereof, is recognised as additional depletion, depreciation and amortisation expense in the Statement of Profit or Loss and Other Comprehensive Income as impairment of non - current assets.

As at 31 December 2015 and 31 December 2014, there were no indicators of impairment as defined by AASB 6, and as such no impairment testing was performed.

On 21 August 2014, Falcon Australia completed the Agreements with Origin and Sasol, 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.
- Origin was appointed as Operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal program 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 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 between 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.
- 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.

Refer to the Operating and Financial Review for an update on operations during 2015.

9. Trade and other receivables (non - current assets)

	As at 31 December	
	2015	2014
	$'000	$'000
Bonds for permits	**22**	24
	22	24

10. Cash and cash equivalents

	As at 31 December	
	2015	2014
	$'000	$'000
Cash and cash equivalents	**16**	27
	16	27

Cash and cash equivalents can include cash on hand, deposits held on call with banks, other short term highly liquid investments with initial maturities of three months or less at inception and bank overdrafts where a legal right of offset exists. Bank overdrafts where no legal right of offset exists are shown within borrowings in current liabilities in the statement of financial position

11. Trade and other receivables (current assets)

	As at 31 December	
	2015	2014
	$'000	$'000
Prepayments	**3**	5
Other receivables	**-**	17
	3	22

12. Share Capital

The following is a reconciliation of the issued and outstanding shares in issue:

	Note	**Number of share**	**Share Capital $'000**
At 1 January 2014		206,393,237	43,559
Expiry of options	13	-	2,083
At 31 December 2014		206,393,237	45,642
At 31 December 2015		**206,393,237**	**45,642**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. The Company does not have authorised capital or par value in respect of its issued shares

In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to realise its investment in the Beetaloo exploration permits. The company manages the components of shareholders' equity and its cash as capital, and makes adjustments to these components in response to the Company's business objectives and the economic climate. To maintain or adjust its capital structure, the Company may issue new common shares or debt instruments, or borrow money or acquire or convey interests in other assets. The Company does not anticipate the payment of dividends in the foreseeable future. The Company is dependent upon its 98.1 % Parent Company for continued funding.

13. Expired Options

Options holders were entitled to receive 1 fully paid ordinary share for each option exercised by payment of $1.25 per option at any time up to the expiry date. 5,213,877 options expired on 4 June 2013 and 1,296,721 options expired on 15 November 2013. The option reserve was the fair value of the options on the date of issue. In 2014 the value associated with these expired options has been transferred to share capital in the amount of $2,083,000.

14. Accounts payable and accrued expenses

		As at 31 December
	2015	2014
	$'000	$'000
Trade payables	**8**	24
Accruals	**228**	263
	236	287

15. Related party loans

		As at 31 December
	2015	2014
	$'000	$'000
Related party loans - Falcon Oil & Gas Ltd	**2,282**	1,878
	2,282	1,878

The Company's acquisition and exploration expenditure has been primarily funded by way of loan from its parent entity, Falcon Oil & Gas Ltd. This loan is a $14 million facility. The facility carried an interest at a rate of Libor + 2% up to a maximum of 7% up until 1 July 2015. From 1 July 2015, the loan is interest free. The facility expires on 31 December 2018 as long as the Company remains a 98.1% subsidiary of Falcon Oil & Gas Ltd. The loan is repayable on demand.

16. Overriding Royalty, Beetaloo Basin, Australia

On 1 November 2013, Falcon Australia announced it had entered into an agreement ("**the CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% Overriding Royalty Interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin. The transaction details were:

- Falcon Australia made an initial payment to CRIAG of $999,000 on signing the CRIAG Agreement;
- Falcon Australia to make a second payment to CRIAG of $999,000 to acquire the first 3% (three fourths) of the ORRI upon completion of a farm - out deal in Australia;
- CRIAG has granted Falcon Australia a five year call option to acquire the remaining 1% (one fourth) for $5 million; and
- All ORRI's acquired under the CRIAG Agreement will be immediately cancelled by Falcon Australia.

On 17 December 2013, Falcon Australia announced it had entered into an 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 for the following consideration:

- Falcon Australia will make a payment to TOG Group of $5 million to acquire 5% (five eighths) of their ORRI only on completion of a Beetaloo farm - out transaction;
- TOG Group will grant Falcon Australia a five year call option to acquire a further 2% (two eighths) of their ORRI for a payment of $15 million;
- All ORRIs acquired under the Agreement will be immediately cancelled by Falcon Australia; and
- TOG Group will retain a 1% ORRI.

On completion of Falcon's Beetaloo farm-out as announced on the 21 August 2014, Falcon Australia made the second payment to CRAIG in the amount of $999,000 and to the TOG Group in the amount of $5 million. The overriding royalty is now at 4%. As detailed in the respective CRAIG agreement and the TOG agreement, Falcon Australia and the Farminees have the option to reduce this royalty further to 1% by the exercise of two call options. The call options will be funded by Falcon Australia and each of the Farminees in proportion to their interest in the permits.

17. Commitments & contingencies

The work commitment on the Beetaloo Basin, Northern Territory, Australia is aligned with the farm-out agreement entered into by Falcon Australia with Sasol and Origin in August 2014.

The Company plans to continue the 9 well drilling programme which commenced in 2015 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 between 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.

The Company has no other material commitments or contingencies.

18. Subsequent events

There were no significant events after the reporting date.

19. Comparatives

Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period.

20. Approval of Financial Statements

This Financial Report was approved by the Board of Directors and authorised for issue on 27 April 2016.

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