FALCON OIL & GAS AUSTRALIA LIMITED

ABN 53 132 857 008

31 DECEMBER 2012 FINANCIAL REPORT

All amounts are in USD unless otherwise stated

Beetaloo Basin, Northern Territory, Australia

Falcon Oil & Gas Australia Limited (the "Company" or "Falcon Australia") is the registered owner of four exploration permits ("the Permits"), comprising 7,000,000 acres 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 LNG 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 35,260^2 km) 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.

RPS Energy, in its independent Competent Persons Report ("CPR") dated 1 January 2013 (available on the Falcon Oil & Gas Ltd website), estimates gross unrisked recoverable prospective resource (play level) potential of 162 trillion cubic feet ("Tcf") of gas and 21,345 million barrels of oil ("Mmbo") (P50) for the Company's Beetaloo Exploration Permits.

Exploration Permits

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

Assets	**Operator**	**Status**	**Area (km^2)**	**Expiry**
Exploration Permit EP-76 (Beetaloo Basin, NT)	Hess(ii)	Exploration	4,976.3	31 December 2013
Exploration Permit EP-98 (Beetaloo Basin, NT)	Hess(i) (ii)	Exploration	11,412.1	31 December 2013
Exploration Permit EP-99 (Beetaloo Basin, NT)	Falcon	Exploration	2,587.2	31 December 2013
Exploration Permit EP-117 (Beetaloo Basin, NT)	Hess(ii)	Exploration	9,218.3	31 December 2013

Notes:
(i) Falcon Australia retains operatorship in the Shenandoah-1 well and approximately 405^2 km (approximately 100,000 acres) land around the Shenandoah-1 well-bore in exploration permit EP-98.
(ii) Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty Ltd. ("Hess") in 2011.

A summary of the Company's Beetaloo Exploration Permits is contained in the table above. The acreage interests covered by the Beetaloo Exploration Permits cover the majority of the Beetaloo Basin and are held 100% in the name of the Company.

In April 2011, the Company entered into a joint venture with Hess whereby Hess agreed to collect seismic data over an area made up of three of the four Beetaloo Exploration Permits, excluding exploration permit EP-99 and an area within exploration permit EP-98 (the Shenandoah-1 well and approximately 100,000 acres (approximately 405 km) of land around the well-bore), referred to as the Hess Area of Interest. Falcon Australia is the operator of exploration permit EP-99 and Hess is the operator of exploration permits EP-76, EP-98 and EP-117.

Falcon Australia also retained operatorship in the Shenandoah-1 well and approximately 100,000 acres (approximately 405^2 km) of land around the Shenandoah-1 well-bore within exploration permit EP-98. The work commitments for the Beetaloo Exploration Permits held by Falcon Australia have been met for previous years, with the exception of exploration permit EP-99, on which an extension was granted to 31 December 2013. In September 2012, Falcon Australia obtained Northern Territory Department of Resources approval for a 12 month extension of the Beetaloo Exploration Permits until 31 December 2013.

In accordance with local law and regulations, all Falcon Australia's acreage interests are subject to royalties on production values of 10% to government and1% to native title holders/claimants and up to approximately 13% to other parties. In addition, Falcon Australia is subject to corporate income 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.

Discoveries and Prospectivity

The Board believes that the Beetaloo Basin is relatively under-explored and has shale oil, shale gas and BCGA ("basin centered gas accumulations") 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 and core oil and gas shows throughout the Beetaloo Basin in prospective formations. The Shenandoah-1 well was a vertical hole well drilled by Sweetpea in 2007. The well was deepened by Falcon Australia in 2009 to finish at 2,714 metres. It was re-entered in Q3 2011 and five short tests were conducted including several fraccing operations. Gas was recovered from three zones with some liquids.

Current activity

Since the signing of the Evaluation and Participation Agreement (the "**E&P Agreement**"), Hess has acquired 3,490 kilometres of 2D seismic data at an estimated cost in excess of $55 million. The 2D seismic data is currently being processed and interpreted. Hess has the option, valid until 30 June 2013, to acquire a 62.5% working interest in the Hess Area of Interest by committing to drill and evaluate five exploration wells at Hess' sole cost, one of which must be a horizontal well. All costs to plug and abandon the five exploration wells will also be borne solely by Hess. Hess has agreed, subject to proceeding to the development phase, to carry Falcon Australia, on the first development well (a sixth well), up to a gross cost of $10 million, which the Board believes will be the total gross cost of this well. Costs to drill wells after the five exploration wells and the first development well (and after the initial $10 million) will be borne 62.5% by Hess and 37.5% by Falcon Australia.

Under the minimum work commitments for exploration permit EP-99, Falcon Australia must spend a minimum of $1.6 million by 31 December 2013 in collecting 2D seismic data on the underlying acreage within exploration permit EP-99. Falcon Australia is currently finalising a 2D seismic acquisition programme for exploration permit EP-99 in order to meet this requirement in 2013. This 2D seismic data is expected to provide the necessary information to plan a potential well programme in the coming years.

Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources.

Falcon Australia has received expressions of interest from a number of third parties regarding a possible farm-out arrangement on the combined area outside of the Hess Area of Interest comprising exploration permit EP-99 and approximately 100,000 (approximately 405 km2) acres around the Shenandoah-1 well, measuring approximately 739,388 acres (approximately 2,992 km2) in total.

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 2012

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

Directors

The names of directors of the Company holding office at any time during or since the end of the financial period are:

Philip D O'Quigley	Chairman appointed 1 May 2012
John Craven	Director appointed 10 December 2010
Martin Oring	Director appointed 31 July 2010
Kym P Livesley	Director appointed 31 July 2010
John W Carroll	Director appointed 31 July 2010
Igor R Akhmerov	Director appointed 15 September 2011
Robert Macauley	Chairman appointed 31 July 2010, resigned 1 May 2012

Philip Declan O'Quigley – Executive Chairman

Mr. O'Quigley brings 20 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.

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. John is currently CEO of Discover EXploration 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.

Martin B Oring, Non-Executive Director

Mr. Oring has been the Chairman of the Board of Directors of PetroHunter Energy Corporation since April 2009, its President and Chief Executive Officer since May 2009. Mr. Oring is an executive in the financial services and energy industries. Prior to forming his current business in 2001, Wealth Preservation, LLC, he had extensive experience as a member of management in several companies, including Prudential Securities (Managing Director of Executive Services), Chase Manhattan Corporation (Manager of Capital Planning), and Mobil Corporation (Manager, Capital Markets & Investment Banking). He has served as a director of Parallel Petroleum Corporation, located in Midland, Texas, and currently serves as Chairman, CEO and President of Searchlight Minerals Corp., located in Henderson, Nevada.

Mr. Oring received a B.S. degree in mechanical engineering from the Carnegie Institute of Technology in 1966 and an M.B.A. degree in production management, finance and marketing from Columbia University in 1968.

Kym Pelham Livesley- Non-Executive Director

Kym Livesley is a corporate lawyer with 32 years' experience. Kym has substantial expertise in mergers and acquisitions, capital markets, takeovers and general corporate and commercial advice. Kym maintains an industry focus in the energy and resources sectors, for listed and private corporates in the Asia-Pacific region.

Kym also has experience in capital raising, IPOs, directors' duties, dual listings (AIM, TSX) and corporate governance.

Kym has a Bachelor of Laws from the University of Adelaide. Among other affiliations, Kym is a former National President of the Australian Mining and Petroleum Law Association (AMPLA), member of the Minerals Council NSW and is a fellow of the Australian Institute of Company Directors (AICD).

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. In November 2004 the National Council made him a Fellow of the Institute.

Igor P Akhmerov - Non-Executive Director

Mr. Ahkmerov graduated from the Moscow Institute of Management in 1989, Wharton Business School in 1995, and Lauder Institute of Business and International Relations, also in 1995. From 1989 through 1993 Mr. Akhmerov worked at the Moscow office of Bain & Company, specialised in privatisation and banking. After graduation from Wharton Business School, Mr. Akhmerov joined the Boston office of Bain & Company. In 1998 Mr. Akhmerov returned to Russia and joined Sputnik Group, the largest Russian private equity investment group, as a partner. In 2001 he moved to TNK as First Vice President for planning, budgeting, investment governance, taxes, and reporting. From 2004 until 2006 he served as chief financial officer of Renova Group. He has served as Chief Executive Officer of Avelar Energy Group since 2007. Mr. Igor Akhmerov is also a non-executive member of the board of directors of Aión Renewables SpA, a leading player in the Italian solar market, since 24 September 2008.

Robert Macaulay, PEng- Non-Executive Director, Chairman, resigned 1 May 2012

Mr. Macaulay has 26 years' industry experience in petroleum engineering, field development planning and business development and currently provides consulting services in these areas. He is a director of PetroGlobe Inc. (TSX – PGB), serving on the compensation committee and as chairman of the reserves committee. He held the post of V.P. Engineering and Production at Centurion Energy International Inc., a Canadian company active in Egypt which was sold at over 30,000 boepd in 2007. His past experience includes positions of increasing responsibility at Vermilion Resources (petroleum engineering for France properties and business development in Europe), Shell (reservoir engineering in Canada and the Sultanate of Oman) and PanCanadian Petroleum Ltd.

He holds a BSc (Hons) in Chemical Engineering from Queen’s University, Ontario and MBA degrees from Queen’s and from Cornell University, New York (with distinction). He is a member of APEGGA and SPE.

Company Secretary

Stephen Peterson – appointed 5 August 2008.

Mr Peterson is currently the Company Secretary. He provides financial and administrative services on a contract basis to a number of companies in the resources industry. He has over 25 years experience in senior financial roles and as company secretary with listed public companies primarily in the resources industry in Australia.

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 financial period are as follows:

	Board meetings	
	Number of meetings held	**Number of meetings attended**
Philip O’Quigley	3	3
John Craven	7	1
Martin Oring	7	7
Kym P Livesley	7	7
John Carroll	7	7
Igor Akhmerov	7	3
Robert Macauley	4	4

Principal activities

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

Financial results

The net loss after income tax attributable to members of the Company for the year ended 31 December 2012 was $1,107,000 (2011: loss of $974,000).

Dividends

There were no dividends paid or declared by the Company during the year ended 31 December 2012, (2011: nil).

State of affairs

Pursuant to the E&P Agreement completed with Hess in June 2011, Hess has completed a seismic program at a cost of approximately A$60 million.

Hess now has the right to acquire a 62.5% working interest in the Area of Interest by committing to drill and evaluate five exploration wells at their sole cost, one of which must be a horizontal well. All costs to plug and abandon the five exploration wells will also be borne solely by Hess.

The drilling and evaluation of the five exploration wells must meet the minimum work requirements of a work program. Costs to drill wells after the five exploration wells will be borne 62.5% by Hess and 37.5% by Falcon Australia.

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

Operating and financial review

The operating and financial review of the Company during the year is detailed on pages 1 to 2 of this 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.

Events subsequent to balance date

There were no significant events after balance date.

Likely developments

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 established 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 contract.

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

The lead auditor's independence declaration is set out on page 7 and forms part of the directors' report for the year ended 31 December 2012.

Signed this 26th day of April 2013 in accordance with a resolution of the Board of Directors:

Philip O'Quigley
Chairman

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

To: the directors of Falcon Oil and Gas Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 31 December 2012 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Stephen Board
Partner

Brisbane
30 April 2013

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by scheme approved under Professional Standards Legislation.

FALCON OIL & GAS AUSTRALIA LIMITED

Statement of Comprehensive Income for the year ended 31 December 2012

	Notes	**Year Ended 31 December 2012 US$'000**	Year Ended 31 December 2011 US$'000
Revenue			
Revenue		**-**	-
Expenses			
Accounting & Audit Fees		**(86)**	(126)
Consultants Fees		**(235)**	(258)
Directors Fees		**(41)**	(41)
Legal Expenses		**(219)**	(154)
Travel Expenses		**(35)**	(297)
Miscellaneous		**(74)**	(162)
Management Fee		**(240)**	(240)
Results from operating activities		**(930)**	(1,278)
Financial income		**-**	1
Financial expenses			
- Interest expense		**(124)**	-
- Foreign Currency Exchange gains/(losses)		**(53)**	303
Net financing gains/(losses)		**(177)**	304
Loss before tax		**(1,107)**	(974)
Income tax		**-**	-
Loss for the period		**(1,107)**	(974)
Other Comprehensive Income		-	-
Total Comprehensive Loss for the period		**(1,107)**	(974)

FALCON OIL & GAS AUSTRALIA LIMITED

Statement of Financial Position
as at 31 December 2012

	Notes	**31 December 2012 US$'000**	31 December 2011 US$'000
Current assets			
Cash and Cash Equivalents	4	**24**	1,914
Receivables	5	**32**	926
Total current assets		**56**	2,840
Non-current assets			
Property Plant & Equipment	6	**-**	-
Exploration and Evaluation Assets	7	**49,873**	48,221
Other	8	**487**	487
Total non-current assets		**50,360**	48,708
Total assets		**50,416**	51,548
Current liabilities			
Payables and Accruals	9	**1,105**	2,639
Related Party Loans	10	**9,435**	7,826
Total current liabilities		**10,540**	10,465
Non-current liabilities			
Other Liabilities	11	**50**	150
Total non-current liabilities		**50**	150
Total liabilities		**10,590**	10,615
Net Assets		**39,826**	40,933
Equity			
Issued Capital	12	**43,559**	43,559
Option Reserve	12	**2,083**	2,083
Retained Losses	12	**(5,816)**	(4,709)
Total equity		**39,826**	40,933

FALCON OIL & GAS AUSTRALIA LIMITED

Statement of Cash Flows
for the year ended 31 December 2012

	Notes	**Year Ended December 2012 US$'000**	Year Ended 31 December 2011 US$'000
Cash flows from operating activities			
Cash payments in the course of operations		**(2,223)**	(1,308)
Interest Received		**-**	1
Interest paid		**-**	-
Realised FX gains/(losses)		**(53)**	303
Cash receipts in the course of operations		**894**	(499)
Net cash flows from operating activities	13	**(1,382)**	(1,503)
Cash flows from investing activities			
Proceeds from sale of Property, Plant & Equipment		**-**	618
Exploration & evaluation		**(1,854)**	(14,042)
Proceeds from farm out of project		**-**	19,609
Net cash flows from investing activities		**(1,854)**	6,185
Cash flows from financing activities			
Proceeds from related party loans		**1,346**	-
Repayment of related party loans		**-**	(8,189)
Net cash flows from financing activities		**1,346**	(8,189)
Net increase in Cash and Cash Equivalents		**(1,890)**	(3,507)
Cash and Cash Equivalents at the beginning of the financial period		**1,914**	5,421
Cash and Cash Equivalents at the end of the financial period	4	**24**	1,914

Statement of Changes in Equity for the year ended 31 December 2012

	Notes	Issued Capital US$'000	Options Reserve US$'000	Retained Losses US$'000	Total Equity US$'000
Balance 1 January 2012		**43,559**	**2,083**	**(4,709)**	**40,933**
Loss for the year		-	-	**(1,107)**	**(1,107)**
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	**(1,107)**	**(1,107)**
Balance as at 31 December 2012		**43,559**	**2,083**	**(5,816)**	**39,826**

	Notes	Issued Capital US$'000	Options Reserve US$'000	Retained Losses US$'000	Total Equity US$'000
Balance 1 January 2011		43,559	2,083	(3,735)	41,907
Loss for the year		-	-	(974)	(974)
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	(974)	(974)
Balance as at 31 December 2011		43,559	2,083	(4,709)	40,933

NOTE 1 - REPORTING ENTITY

Falcon Oil & Gas Australia Limited (the ‘Company’ or 'Falcon Australia") is a company domiciled in Australia at Suite 313, 3 Spring Street Sydney NSW 2000. 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 is Falcon Oil & Gas Limited, a Canadian entity.

NOTE 2 - BASIS OF PREPARATION

(a) 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 1031 Materiality
- AASB 1048 Interpretation and Application of Standards.
- AASB 1054 Australian Additional Disclosures.

The financial report was authorised for issue by the directors on 26 April 2013.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in United States dollars, which is the Company’s functional currency. All amounts are rounded to the nearest $’000 unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 7 – Exploration and Evaluation Assets
- Note 11 – Asset Retirement Obligation
- Note 2(e) – Going Concern
- Note 15 – Contingent Liabilities

NOTE 2 - BASIS OF PREPARATION (Continued)

(e) 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 Company's recent acquisition and exploration expenditure has been primarily funded by way of loan from its parent entity, Falcon Oil & Gas Ltd. This loan is a $12.5 million facility with a 13 month term ending 14 June 2013. The facility carries interest at a rate of Libor + 2% up to a maximum of 7%. On 26 April 2013, the lender, Falcon Oil & Gas Ltd, granted an extension of the loan facility to 30 September 2013.

The board has undertaken a detailed review of the Company's anticipated future working capital requirements. This review indicates that the company needs approximately $15 million to repay the loan and meet capital and working capital commitments for the foreseeable future.

The company is currently considering proceeding with a "Rights Issue", but will not make final decision on proceeding, the amount to be raised and the pricing of the "rights issue" until after receiving notification from Hess on whether or not they elect to acquire a 62.5% working interest in the Hess Area of Interest, as discussed in the operating and financial review.

It is anticipated by the board, that the parent, Falcon Oil & Gas Ltd will take up 100% of its entitlement of the future capital fundraising, however no formal undertaking of this has been received from the parent.

The Company's ability to continue as a going concern in the foreseeable future is dependent upon its ability to raise this additional capital. There is no assurance that additional capital will be available to the Company on acceptable terms. However, the Directors are of the opinion that they will raise sufficient funds to meet its operational needs, and as a result have prepared the financial statements on a going concern basis.

Given the uncertainties associated with a potential equity raising, there is an inherent uncertainty as to whether the Company will raise sufficient additional capital to continue as a going concern.

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.

In the event that the Company does not obtain additional funding, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial report.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in financial report.

Trade and other receivables

Trade and other receivables are stated at their amortised cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Plant & Equipment

Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment charges.

Exploration and Evaluation Costs

Exploration and evaluation expenditure, including the costs of acquiring licences, are capitalised as intangible exploration and evaluation assets on an area of interest basis, less any impairment losses. Costs incurred before the Company has obtained the legal rights to explore an area are recognised in the Statement of Comprehensive Income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to developing mine properties.

Impairment

The carrying amounts of the Company's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

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 depreciation or amortisation, if no impairment loss had been recognised.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share capital

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Interest bearing borrowings

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 comprehensive income over the period of the borrowings on an effective interest basis.

Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

Revenue

Sales revenue is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer.

Expenses

Net financing costs

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

Interest revenue is recognised in the statement of comprehensive income as it accrues, using the effective interest method.

Income tax

Income tax on the statement of comprehensive income for the period comprises current and deferred tax. Income tax is recognised in the statement of 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 period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of the previous period.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend

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 ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. The Company does not plan to adopt this standard early and the extent of the impact has not been assessed yet.

	Notes	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
NOTE 4 – CASH & CASH EQUIVALENTS			
Cash at bank		**24**	1,914
NOTE 5 – RECEIVABLES			
Current			
Prepayments		**11**	13
Other Receivables		**21**	913
		32	926
NOTE 6 – PROPERTY PLANT & EQUIPMENT			
Cost			
Opening balance		**-**	**1,666**
Transferred to Exploration & Evaluation		**-**	**(1,048)**
Disposals the period		**-**	**(618)**
Balance as at 31 December 2012		**-**	**-**
Depreciation			
Opening balance		**-**	**-**
Depreciation		**-**	**-**
Balance as at 31 December 2012		**-**	**-**
Net Book Value at 31 December 2012		**-**	-
NOTE 7 – EXPLORATION & EVALUATION ASSETS			
Cost			
Opening balance		**48,221**	50,592
Acquisition of interests in exploration licences		**-**	-
Expenditure in the period		**1,652**	16,190
Transferred from Property Plant & Equipment		-	1,048
Proceeds of farm out		-	(19,609)
Balance as at 31 December 2012		**49,873**	48,221
Depletion & Impairment			
Opening balance		**-**	**-**
Depletion & Impairment		**-**	**-**
Balance as at 31 December 2012		**-**	**-**
Net Book Value at 31 December 2012		**49,873**	48,221

NOTE 7 – EXPLORATION & EVALUATION ASSETS (continued)

In June 2011, the Company and Hess Australia (Beetaloo) Pty. Ltd. ("Hess") closed on an Evaluation and Participation Agreement (the "E&P Agreement"). Under the terms of the E&P Agreement, Hess paid $17.5 million to the Company as a participation fee for the exclusive right to conduct operations for the exploration, drilling, development and production of hydrocarbons from three of the four Permits, and excluding an area comprising 100,000 acres surrounding the Shenandoah-1 well (the "Area of Interest").

Initially, Hess shall acquire seismic data, at its sole cost of at least $40.0 million, over the Area of Interest within 18 months of the execution of the E&P Agreement. After acquiring the seismic data, Hess shall have the right to acquire a 62.5% working interest in the Area of Interest. If Hess acquires the working interest, they commit to drill and evaluate five exploration wells at their sole cost, one of which must be a horizontal well. All costs to plug and abandon the five exploration wells will also be borne solely by Hess. The drilling and evaluation of the five exploration wells must meet the minimum work requirements of the work program. Costs to drill wells after the five exploration wells will be borne 62.5% by Hess and 37.5% by Falcon Australia. As of 31 December 2012, Hess had completed the seismic program at a cost of approximately A$55 million and have until 30 June 2013 to decide whether to proceed to drill the five wells.

Under existing agreements with two advisors, the Company is obligated to pay a "success fee" in the aggregate amount of 5% for services provided in conjunction with the E&P Agreement with Hess. The success fee is based on the cash or cash-equivalent value of any net amount received directly or indirectly by the Company, including the participation fee and warrants issued by the Canadian parent entity Falcon Oil & Gas Limited, cost of seismic data commitment and cost of drilling commitment.

In November 2011, Falcon Australia, in accordance with the work program for Permit EP 98, completed the testing and stimulation of the Shenandoah-1 well at its sole cost, and the well has been plugged and abandoned. Falcon Australia provided Hess with the data obtained from these activities, and Hess paid Falcon Australia $2.0 million.

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
NOTE 8 – OTHER NON CURRENT ASSETS		
Security deposits	**487**	487
	487	487
NOTE 9 – PAYABLES & ACCRUALS		
Trade payables	**45**	2,065
Accruals	**1,060**	574
	1,105	2,639
NOTE 10 – RELATED PARTY LOANS		
Current		
Falcon Oil & Gas Limited	**9,435**	7,826
	9,435	7,826

NOTE 10 – RELATED PARTY LOANS (continued)

The Company's recent acquisition and exploration expenditure has been primarily funded by way of loan from its parent entity, Falcon Oil & Gas Ltd. This loan is a $12.5 million facility with a 13 month term ending 14 June 2013. The facility carries interest at a rate of Libor + 2% up to a maximum of 7%. The lender, Falcon Oil & Gas Ltd, has indicated that the loan will not be renewed and repayment of the facility will be sought on 14 June 2013. Refer note 2(e) regarding going concern.

	Year Ended 31 December 2012 US$'000	Year Ended 31 December 2011 US$'000
NOTE 11 – OTHER LIABILITIES		
Asset retirement obligation	**50**	150
	50	150

The Company makes provision for the rehabilitation of drill sites on a discounted basis. The rehabilitation provision represents the present value of estimated rehabilitation expenditure which would be required to rehabilitate the site at the conclusion of current exploration activities.

NOTE 12 – CAPITAL & RESERVES	**31 December 2012 Number**	31 December 2011 Number
Share capital		
Opening balance	**206,363,237**	206,363,237
Ordinary shares on issue – fully paid	**206,363,237**	206,363,237
Options		
Opening balance	**6,510,598**	6,510,598
Options on issue	**6,510,598**	6,510,598

Options holders are 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 expire on 4 June 2013 and 1,296,721 options expire on 15 November 2013.

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 options reserve is the fair value of the options on the date of issue.

Dividends

There were no dividends paid or declared by the Company during the period ended 31 December 2012.

	Notes	**Year Ended 31 December 2012 US$'000**	21 August to 31 December 2011 US$'000
NOTE 13 – STATEMENT OF CASH FLOWS			
Reconciliation of loss for the period to net cash from operating activities			
Loss for the period		**(1,107)**	(974)
Adjustment for:			
Net finance cost		**124**	
Non cash costs		**240**	21
Decr/(incr) in receivables		**894**	(499)
Incr/(decr) in payables		**(1,533)**	(51)
Net cash from operating activities		**(1,382)**	(1,503)

NOTE 14 – CAPITAL COMMITMENTS

Under a revised work program approved by the Northern Territory of Australia Government, Department of Resources, the Company is obligated to complete minimum work requirements by expending A$1.6 million on EP99. Expenditure commitments on EP76, EP98 and EP117 have been met by expenditure on the Shenandoah well and the seismic program undertaken by Hess in 2012.

NOTE 15 – CONTINGENT LIABILITIES

Under existing agreements with two advisors, the Company is obligated to pay a "success fee" in the aggregate amount of 5% for services provided in conjunction with the E&P Agreement with Hess. The success fee is based on the cash or cash-equivalent value of any net amount received directly or indirectly by the Company, including the cost of drilling commitment should Hess decide to proceed to earn a 62.5% interest in the Beetlaoo permits by drilling 5 wells. An estimate of this liability is not practical given it is dependent upon future events which cannot be assessed with any degree of accuracy.

	Notes	**Year Ended 31 December 2012 A$**	Year Ended 31 December 2011 A$
NOTE 16 – AUDITOR REMUNERATION			
Audit of financial report - KPMG		**28,000**	30,500

NOTE 17 – SUBSEQUENT EVENTS

There were no significant events after balance date which would have a material effect on the Company's Financial Report at 31 December 2012.

FALCON OIL & GAS AUSTRALIA LIMITED

Directors' Declaration

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

(a) the Company is not a reporting entity;

(b) the financial statements and notes, set out on pages 8 to 20, 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 2012 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 Notes 2 and 3; and

(ii) complying with Australian Accounting Standards to the extent described in Notes 2 and 3 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

Dated 26th day of April 2013

Independent audit report to the members of Falcon Oil & Gas Australia Limited

We have audited the accompanying financial report, being a special purpose financial report, of Falcon Oil & Gas Australia Limited (the Company), which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, Notes 1 to 17 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 Notes 2 and 3 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 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 entity'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 entity'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.

These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the basis of accounting described in Notes 2 and 3 to the financial statements so as to present a true and fair view which is consistent with our understanding of the Company's financial position, and of its performance.

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*.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation

Auditor's 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 2012 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards to the extent described in Notes 2 and 3 and the Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 2(e) to the financial statements which indicates that the Company's ability to continue as a going concern is dependent upon raising additional capital. This condition, along with other matters as set forth in Note 2(e), indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, whether the Company will realise its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report.

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.

KPMG

Stephen Board
Partner

Brisbane
30 April 2013