ABN 53 132 857 008

Falcon Oil & Gas Australia Limited

Financial Report
Year Ended 31 December 2013

(Presented in U.S. Dollars)

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Operating and Financial Review

Beetaloo Basin, Northern Territory, Australia

Overview

Falcon Australia is the registered holder of four exploration permits, comprising approximately 7 million acres (approximately 28,000 km^2) 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 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	Operator	Status	Area (km^2)
Exploration Permit EP-76	Falcon Australia	Exploration	4,976.3
Exploration Permit EP-98	Falcon Australia	Exploration	11,412.1
Exploration Permit EP-99	Falcon Australia	Exploration	2,587.2
Exploration Permit EP-117	Falcon Australia	Exploration	9,218.3

The acreage interests covered by the Beetaloo Exploration Permits cover the majority of the Beetaloo Basin and are held 100% in the name of Falcon Australia. Falcon Australia is the operator of the exploration permits.

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 original extension was granted to 31 December 2013.

In June 2013, the exploration permit for EP-99 was extended to 31 December 2014. The permits for EP-76, EP-98 and EP-117 were due to expire on 31 December 2013. Application to extend the permits was made prior to the application due date of 30 September 2013. Receipt of the application has been acknowledged by the Department of Mines and Energy, Northern Territory of Australia. During the first term of the three permits, a significant work program was completed and a major work program is proposed for the period of the renewal. Falcon Australia has met all the Northern Territory Government’s requirements for renewal. The renewal process is ongoing.

In accordance with local law and regulations, all Falcon Australia’s acreage interests are subject to royalties on production values of up to approximately 12% to government and native title holders/claimants and 12% to other parties. See Section “2013 activity” below for an update concerning the agreements entered into by Falcon Australia to purchase up to 11% (eleventh twelfths) of the overriding royalty interest held by others. 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.

Discoveries and Prospectivity

The Board believes that the Beetaloo Basin is relatively under - explored 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.

Operating and Financial Review (continued)

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 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. See Section "2013 activity" below for the results of the 2011 / 2012 seismic program in the Beetaloo Basin.

2013 activity

Falcon Australia retains interest in Beetaloo permits / Hess request to defer drilling decision rejected by Falcon Australia Board

In April 2011, Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty Ltd ("**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^2) of land around the well-bore), (the "**Hess Area of Interest**"). Falcon Australia was the operator of exploration permit EP-99 and Hess was 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 km^2) of land around the Shenandoah-1 well-bore within exploration permit EP-98.

Since the date of the agreement and during 2011 and 2012, Hess acquired 3,490 kilometres of 2D seismic data. This is further discussed below.

Hess had the option, valid until 30 June 2013, to acquire a 62.5% working interest in the Hess Area of Interest. However, Hess did not elect to commit to drilling the five wells required to earn their interest in the Beetaloo permits by the agreed deadline. Therefore, in accordance with the Participation Agreement (as amended), which granted Hess the first extension, failure to elect on time meant that Hess forfeited their right to earn 62.5% in three of the Beetaloo permits. Hess had requested a one month extension to allow them sufficient time to conclude a farm - out deal with a third party. However, the late request by Hess to defer the election date again was unanimously rejected by Falcon Australia for reasons outlined below:

- Falcon Australia retained a 100% working interest in the four Beetaloo exploration permits which put Falcon Australia in a stronger position going forward;
- Hess had transferred a perpetual, royalty - free and irrevocable licence to Falcon Australia over the 3,490 kilometres of seismic data acquired by them;
- The initial interpretation of 3,490 kilometres of new seismic data, acquired at no cost to Falcon Australia, was extremely encouraging; (See results of the seismic program below for further details);
- Identification of a shale oil play in the northern part of the permits in addition to the shale gas and conventional plays throughout the acreage;
- Unsolicited interest from major oil and gas companies; and
- Falcon Australia had already granted Hess an extension from August 2012 to June 2013.

Results of Seismic Program in Beetaloo Basin, Australia

As referred to above, under the terms of the joint venture with Hess, in 2011 and 2012 Hess acquired 3,490 kilometres of 2D seismic data investing approximately $80 million during that period at no cost to Falcon Australia. The seismic database, along with existing well data, provides 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.

Three hydrocarbon plays have been identified:
- the shale gas potential in the basin centre;
- a shale oil play in the northern part of the permits; and
- conventional prospects throughout the acreage.

Recent interpretation of the seismic database mapped out several conventional drilling targets that are promising areas of hydrocarbons accumulation in the form of structural closures and traps.

Operating and Financial Review (continued)

Reducing the 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.

Falcon Australia has now completed the two agreements to acquire 8% (eight twelfths) of the privately held ORRI at a total cost of just $7 million, of which $6 million is payable only upon completion of a farm – out. In addition, Falcon Australia has secured agreement to acquire a further 3% (three twelfths) based on two five year call options granted to Falcon Australia at a future combined cost of $20 million leaving only a 1% Royalty in private hands.

Farm-out discussions in Australia advancing

Further to previous press releases, Falcon was approached by several oil and gas companies interested in farming into the Beetaloo Basin. Falcon is well advanced in its discussions with a number of those companies.

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Philip O'Quigley
Chairman

29 April 2014

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 2013.

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 2013 was $1.0 million (2012: loss of $1.1 million).

Dividends

There were no dividends paid or declared by the Company during the year ended 31 December 2013 (2012: nil).

State of affairs

In April 2011, Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty Ltd ("**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^2) of land around the well-bore), (the "**Hess Area of Interest**"). Falcon Australia was the operator of exploration permit EP-99 and Hess was 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 km^2) of land around the Shenandoah-1 well-bore within exploration permit EP-98.

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- Falcon Australia retained a 100% working interest in the four Beetaloo exploration permits which put Falcon Australia in a stronger position going forward;
- Hess had transferred a perpetual, royalty - free and irrevocable licence to Falcon Australia over the 3,490 kilometres of seismic data acquired by them;
- The initial interpretation of 3,490 kilometres of new seismic data, acquired at no cost to Falcon Australia, was extremely encouraging; (See results of the seismic program below for further details)
- Identification of a shale oil play in the northern part of the permits in addition to the shale gas and conventional plays throughout the acreage;
- Unsolicited interest from major oil and gas companies; and
- Falcon Australia had already granted Hess an extension from August 2012 to June 2013.

Falcon Australia has now completed agreements to acquire 8% of the privately held ORRI at a total cost of just $7 million, of which $6 million is payable only upon completion of a farm – out. In addition, Falcon Australia has secured agreement to acquire a further 3% based on two five year call options granted to Falcon Australia at a future combined cost of $20 million leaving only a 1% Royalty in private hands.

Directors' Report (continued)

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

Directors and company secretary

The names of Directors and Company secretary of the Company holding office at any time during or since 31 December 2013 are:

Name	Role	Date of appointment
Philip O'Quigley	Chairman	Appointed 1 May 2012
John Carroll	Country Manager Australia and Director, Falcon Oil & Gas Australia Ltd.	Appointed 31 July 2010
John Craven	Non - Executive Director	Appointed 10 December 2010
Igor Akhmerov	Non - Executive Director	Appointed 15 September 2011
Stephen Peterson	Non - Executive Director and Company Secretary	Appointed 5 August 2008 as company secretary; Appointed 17 February 2014 as Non – Executive Director
Martin Oring	Non - Executive Director	Appointed 31 July 2010; Resigned on 16 July 2013
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 9 and 10 of financial statements.

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 2013 are as follows:

	Board meetings	
	Number of meetings held	Number of meetings attended
Philip O'Quigley	1	1
John Carroll	1	1
John Craven	1	1
Igor Akhmerov	1	-
Martin Oring	1	1
Kym Livesley	1	1

Written resolutions were provided by the Board members, for various significant matters, pertaining to the company which occurred in 2013.

Operating and financial review

The operating and financial review of the Company during the year is detailed on pages 3 to 5 of these financial statements.

Directors' Report (continued)

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 sheet date

There were no significant events after the balance sheet date.

Likely developments

Further to previous press releases, Falcon was approached by several oil and gas companies interested in farming into the Beetaloo Basin. Falcon is well advanced in its discussions with a number of those companies.

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 12 and forms part of the directors' report for the year ended 31 December 2013.

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

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Philip O'Quigley
Chairman

29 April 2014

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 2013.

Philip O'Quigley – 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 Carroll – Country Manager Australia and Director, Falcon Oil & Gas Australia Ltd

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.

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 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.

Igor 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 1995 through 2002 Mr. Akhmerov worked at Bain & Company as consultant, Sputnik Group as partner and after graduation from Wharton Business School, Mr. Akhmerov joined the Boston office of Bain & Company. In 1998 Mr. Akhmerov worked at TNK as First Vice President. From 2004 until 2006 he served as CFO of Renova Group. He has served as Chief Executive Officer of Avelar Energy Group since 2007.

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.

Directors’ and company secretary’s Biographies (continued)

Stephen Peterson - Non - Executive Director and Company Secretary (continued)

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.

Martin 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. Mr. Oring resigned on 16 July 2013.

Kym Livesley – Non - Executive Director

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

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

Mr. Livesley has a Bachelor of Laws from the University of Adelaide. Among other affiliations, Mr. Livesley is a former National President of the Australian Mining and Petroleum Law Association (“**AMPLA**”), member of the Minerals Council, New South Wales and is a fellow of the Australian Institute of Company Directors (“**AICD**”). Mr. Livesley resigned on 17 February 2014.

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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 statements and notes, set out on pages 15 to 32 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 2013 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

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(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:

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Philip O'Quigley
Chairman

29 April 2014

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DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF FALCON OIL & GAS AUSTRALIA LIMITED

As lead auditor of Falcon Oil & Gas Australia Limited for the year ended 31 December 2013, 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.

Brad McVeigh

Director

BDO Audit (WA) Pty Ltd

Perth, 29 April 2014

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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 2013, 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 2013 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*

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 in the financial report, which indicates that the Company's ability to continue as a going concern in the foreseeable future is dependent upon its ability to complete the farm – out of its assets and the continued support of its 98.1% parent Falcon Oil & Gas Ltd. These conditions, along with other matters as set out in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

Brad McVeigh
Director

Perth, 29 April 2014

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

	Notes	Year Ended 31 December 2013 $'000	Year Ended 31 December 2012 $'000
Revenue			
Oil and natural gas revenue		**-**	-
		-	-
Expenses			
Exploration and evaluation expenses		**-**	-
Depreciation		**-**	-
General and administrative expenses	5	**(569)**	(690)
Foreign exchange		**-**	-
Other expenses		**(240)**	(240)
		(809)	(930)
		(809)	(930)
Finance income	7	**13**	-
Finance expense	7	**(233)**	(177)
Net finance expense		**(220)**	(177)
Net loss and comprehensive loss for the year		**(1,029)**	(1,107)

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Financial Position

	Notes	At 31 December 2013 $'000	At 31 December 2012 $'000
Assets			
Non - current assets			
Exploration and evaluation assets	9	**51,444**	49,873
Trade and other receivables	10	**219**	487
		51,663	50,360
Current assets			
Cash and cash equivalents	11	**25**	24
Trade and other receivables	12	**16**	32
		41	56
Total assets		**51,704**	50,416
Equity and liabilities			
Equity			
Share capital	13	**43,559**	43,559
Option reserve	14	**2,083**	2,083
Accumulated Losses		**(6,845)**	(5,816)
Total equity		**38,797**	39,826
Liabilities			
Non - current liabilities			
Asset retirement obligation	15	**-**	50
		-	50
Current liabilities			
Accounts payable and accrued expenses	16	**621**	1,105
Related party loans	17	**12,286**	9,435
		12,907	10,540
Total liabilities		**12,907**	10,590
Total equity and liabilities		**51,704**	50,416

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Changes in Equity

	Share capital $'000	Option Reserve $'000	Accumulated Losses $'000	Total Equity $'000
At 1 January 2012	43,559	2,083	(4,709)	**40,933**
Net loss and total comprehensive loss for the year	-	-	(1,107)	**(1,107)**
At 31 December 2012	43,559	2,083	(5,816)	**39,826**
At 1 January 2013	43,559	2,083	(5,816)	**39,826**
Net loss and total comprehensive loss for the year	-	-	(1,029)	**(1,029)**
At 31 December 2013	43,559	2,083	(6,845)	**38,797**

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Cash Flows

	Notes	Year Ended 2013 $'000	31 December 2012 $'000
Cash flows from operating activities			
Net loss for the period		**(1,029)**	(1,107)
Adjustment for:			
Net finance expense	7	**220**	177
Other expenses		**240**	240
Changes in working capital	8	**(54)**	(692)
Net cash used in operating activities		**(623)**	(1,382)
Cash flows from investing activities			
Exploration and evaluation assets		**(2,031)**	(1,854)
Net cash used in investing activities		**(2,031)**	(1,854)
Cash flows from financing activities			
Proceeds from related party loans		**2,659**	1,346
Net cash from financing activities		**2,659**	1,346
Change in cash and cash equivalents		**5**	(1,890)
Effect of exchange rates on cash on cash equivalents		**(4)**	-
Cash and cash equivalents at beginning of year		**24**	1,914
Cash and cash equivalents at end of year		**25**	24

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 313, 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 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. 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. On 9 January 2014, the Loan facility was further extended to 30 June 2014.

The board has undertaken a detailed review of the Company's anticipated future working capital requirements. This review indicates that the company needs approximately $13 million to repay the loan and meet capital and working capital commitments for the foreseeable future.

The Company's ability to continue as a going concern in the foreseeable future is dependent upon its ability to complete the farm – out of its assets and 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 following has been stated in the parent company financial statements, Falcon Oil & Gas Ltd, for the year ended 31 December 2013, which were approved by their Board of Directors on 29 April 2014.

"*The Group's consolidated financial statement have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future. For the year ended 31 December 2013, the Group incurred a net loss of $3.6 million and operating cash outflows of $5.3 million and as at 31 December 2013, had a retained deficit of $350.6 million.*

During the year the Group raised net funds of $23.5 million through a brokered private placement on the AIM and ESM markets. These funds have been used in the year to repay the Group's 11% debenture ($10.2 million), acquire the 25.4% minority interest in Falcon Australia, ongoing operations and to reduce Falcon Australia's Overriding Royalty Interest on the Beetaloo Permits in Australia. As at 31 December 2013 the Group had a cash balance of $8.4 million.

The Group has forward looking cash commitments regarding its exploration licences of $3.5 million and overheads which need to be met within the next 12 months. As a result, notwithstanding the Group's recent fundraising, the Group's ability to continue as a going concern is dependent upon its ability to raise additional capital through the sale of additional Common Shares, other debt or equity instruments, asset dispositions or entering into joint arrangement with third parties. The Directors are confident that further funds can be raised and it is appropriate to prepare the financial statements on a going concern basis. However, there can be no certainty that any of the aforementioned transactions will complete. This indicates the existence of a material uncertainty related to events or conditions that may cast significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include the adjustments that would be required if the Group could not continue as a going concern."

2. Accounting policies (continued)

The Directors are satisfied that a requisite combination of the aforementioned factors 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 1031 'Materiality';
- AASB 1048 'Interpretation and Application of Standards'; and
- AASB 1054 'Australian Additional Disclosures'.

The company adopted IFRS 10,'Consolidated Financial Statements'; IFRS 11, 'Joint arrangements'; IFRS 12, ' Disclosure of Interest in Other Entities'; IFRS 13, ' Fair Value Measurement'; IAS 27 (revised) 'Separate Financial Statements'; IAS 28 (revised) 'Investments in Associates and Joint Ventures' and Amendments to IAS 19, 'Employee benefits' on 1 January 2013. The adoption of these standards had no material impact on the results of the company.

The financial report was authorised for issue by the directors on 29 April 2014.

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.

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 loss, 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 loss
Financial assets at fair value through the statement of profit or loss and other comprehensive loss 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.

2. Accounting policies (continued)

(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 balance sheet.

(iii) Available - for - sale financial assets

Available - for - sale financial assets are non - derivatives that are either designated in this category or not classified in any of the other categories. They mainly include investments the Company would have in equity securities in which the Company does not have significant influence or control. They are included in non - current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available - for - sale financial assets are carried at fair value. Changes in the fair value are recognised in other comprehensive income / loss. When available - for - sale financial assets are sold or impaired the accumulated fair value adjustments previously recognised in equity are included in the statement of profit or loss and other comprehensive loss as gains and losses. At 31 December 2013 and 31 December 2012, the Company had no assets categorised within this category.

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 2013 or 31 December 2012.

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 loss.

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 loss 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.

2. Accounting policies (continued)

The technical feasibility and commercial viability of extracting a mineral 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 loss.

- *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 loss.

(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 loss 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 loss as incurred.

(iii) Depletion, depreciation and amortisation
The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development and decommissioning costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable and a 50% statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proven and probable reserves are 90% and 10%, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

2. Accounting policies (continued)

Reserves may only be considered proven and probable if the ability to produce is supported by either actual production or a conclusive formation test. The area of reservoir considered proven includes (a) that portion delineated by drilling and defined by gas - oil and / or oil - water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proven and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which 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 loss 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 loss. 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 loss.

(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.

2. Accounting policies (continued)

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 loss. 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 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.

(ii) Legal matters
A provision for legal matters is recognised when legal action is threatened or initiated, and management considers it probable that the legal actions will result in an obligation for the Company. The provision is determined based on the expected cash flows, including legal expenses, and considering the time value of money. When the legal matter relates to exploration and evaluation activities, the recognition of the provision and subsequent change in the expected cash flows is recorded in exploration and evaluation assets.

Finance income and expenses

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

Borrowing costs incurred for the construction of qualifying assets are capitalised during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognised in the statement of profit or loss and other comprehensive loss using the effective interest method. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Company's outstanding borrowings during the period.

2. Accounting policies (continued)

Interest income is recognised as it accrues in the statement of profit or loss and other comprehensive loss, 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 loss 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 loss 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 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.

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 loss together with the valuation of the assets and liabilities in the statement of financial position. Such estimates and judgements are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances and are subject to continual re - evaluation. It should be noted that the impact of valuation in some assumptions and estimates can have a material impact on the reported results.

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

Critical judgments

(i) Exploration and evaluation assets

The carrying value of exploration and evaluation assets was $51.4 million at 31 December 2013 (2012: $49.9 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 and the successful completion of farm - out projects.

The critical judgments were:

Falcon Australia will secure participation by a new farm - in or joint venture partner for the development of the Beetaloo exploration permits in Australia. If Falcon Australia is unable to secure participation by a new farm – in or joint venture partner its ability to develop and realise its investment in the asset could be significantly curtailed and therefore could potentially give rise to an indicator of impairment.

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, expected monies to be received from potential farm - in partners 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 2014, 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.

5. General and administrative expenses

General and administrative expenses costs of:

	Year Ended 31 December	
	2013	**2012**
	$'000	$'000
Accounting and audit fees	**84**	86
Consulting fees	**206**	235
Legal fees	**13**	220
Office and Administrative costs	**66**	73
Directors' fees	**38**	41
Travel and promotion	**162**	35
	569	690

6. Auditors' Remuneration

	Year ended 31 December	
	2013	2012
	$'000	$'000
Audit of financial report – BDO; (2012: KPMG)	**11**	28
Non audit services - BDO	**18**	-
	29	28

The Company's auditors changed post year end. 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.

Non audit services comprises an independent expert report prepared in accordance with section 611 of the Corporations Act to accompany the Notice of meeting sent to shareholders as part of the parent's acquisition of the minority shareholders. The report detailed whether the advantages of the transaction out weighted the disadvantages. This report was commissioned prior to BDO's appointment as auditors.

KPMG were not engaged for services during 2013 with the exception of the completion of the 2012 audit.

The Company has considered the non – audit services provided during the year by the auditor. The Company is satisfied that the provision of those non – audit services during the year, prior to their appointment as auditor 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	
	2013	2012
	$'000	$'000
Finance income		
Net foreign exchange gain	**13**	-
	13	-
Finance expense		
Effective interest on loans and borrowings	**(233)**	(124)
Net foreign exchange loss	**-**	(53)
	(233)	(177)
Net finance expense	**(220)**	(177)

Interest costs noted above relate to the related party loan (refer to note 17). The incurred interest has been capitalised in the outstanding loan balance.

8. Supplement Cash Flow Information

Changes in non - cash working capital is comprised of :

	Year ended 31 December	
	2013	**2012**
	$'000	**$'000**
Trade and other receivables	**16**	894
Accounts payable and accrued expenses	**(70)**	(1,586)
	(54)	(692)

9. Exploration & Evaluation assets

	Year ended 31 December	
	2013	2012
	$'000	$'000
Opening balance at 1 January	**49,873**	48,221
Additions	**1,571**	1,652
Balances as at 31 December	**51,444**	49,873

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 loss as impairment of non - current assets.

As at 31 December 2013 and 31 December 2012, there were no indicators of impairment as defined by AASB 6, and as such no impairment testing was performed.

Beetaloo Basin, Northern Territory, Australia

Falcon Australia is the registered holder of four exploration permits, comprising approximately 7 million acres (approximately 28,000 km^2) in the Beetaloo Basin, Northern Territory, Australia.

In April 2011, Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty. Ltd ("Hess") whereby Hess agreed to collect seismic data over an area covering three of the four Beetaloo Exploration Permits, excluding an area covering approximately 100,000 acres (approximately 405 km2) surrounding the Shenandoah-1 well - bore (the "**Hess Area of Interest**").

Under the terms of the E&P Agreement, Hess paid $20.0 million to the Company (i) as a participation fee for the exclusive right to conduct operations for the exploration, drilling, development and production of hydrocarbons from the Hess Area of Interest and (ii) as consideration for warrants to acquire 10,000,000 common shares in the capital of the parent company exercisable from 14 November 2011 through 13 January 2015 at an exercise price of CDN$0.19 per share (the "**Hess Warrants**"). The $20.0 million of gross proceeds received from Hess in 2011 were reduced by closing costs of $1.3 million resulting in net proceeds of $18.7 million.

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.

Since the date of the agreement and during 2011 and 2012, Hess acquired 3,490 kilometres of 2D seismic data.

Hess had 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 have been a horizontal well. All costs to plug and abandon the five exploration wells would have been borne solely by Hess. Hess had also agreed, subject to proceeding to the development phase, to carry Falcon Australia, on a first development well, up to a gross cost of $10 million. Costs to drill wells after the five exploration wells and the first development well (and after the initial $10 million) would have been borne 62.5% by Hess and 37.5% by Falcon Australia.

9. Exploration & Evaluation assets (continued)

However, Hess did not elect to commit to drilling the five wells required to earn their interest in the Beetaloo permits by the agreed deadline. Therefore, in accordance with the Participation Agreement (as amended), which granted Hess the first extension, failure to elect on time meant that Hess forfeited their right to earn 62.5% in three of the Beetaloo permits. Hess had requested a one month extension to allow them sufficient time to conclude a farm - out deal with a third party. However, the late request by Hess to defer the election date again was unanimously rejected by the Board for reasons outlined below:

- Falcon Australia retained a 100% working interest in the four Beetaloo exploration permits which put Falcon Australia in a stronger position going forward;
- Hess had transferred a perpetual, royalty - free and irrevocable licence to Falcon Australia over the 3,490 kilometres of seismic acquired by them;
- The initial interpretation of 3,490 kilometres of new seismic data, acquired at no cost to Falcon Australia, was extremely encouraging; (See results of the seismic program below for further details)
- Identification of a shale oil play in the northern part of the permits in addition to the shale gas and conventional plays throughout the acreage;
- Unsolicited interest from major oil and gas companies; and
- Falcon Australia had already granted Hess an extension from August 2012 to June 2013.

Results of Seismic Program in Beetaloo Basin, Australia
As noted above, under the terms of the 2011 Participation Agreement, in 2011 and 2012 Hess acquired 3,490 kilometres of 2D seismic data investing approximately $80 million during that period at no cost to Falcon Australia. The seismic database, along with existing well data, provides 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.

Three hydrocarbon plays have been identified:
- the shale gas potential in the basin centre;
- a shale oil play in the northern part of the permits; and
- conventional prospects throughout the acreage.

Recent interpretation of the seismic database mapped out several conventional drilling targets that are promising areas of hydrocarbons accumulation in the form of structural closures and traps.

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

	As at 31 December	
	2013	2012
	$'000	$'000
Bonds for permits	**219**	487
	219	487

11. Cash and cash equivalents

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

12. Trade and other receivables (current assets)

		As at 31 December
	2013	2012
	$'000	$'000
Prepayments	**8**	11
Other receivables	**8**	21
	16	32

13. Capital

		As at 31 December
	2013	2012
	Number	Number
Share Capital		
Ordinary shares in issue – fully paid	**206,363,237**	206,363,237

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.

14. Reserves

		As at 31 December
	2013	2012
	Number	Number
Options		
Opening balance at 1 January	**6,510,598**	6,510,598
Expired during period	**(6,510,598)**	-
Options in issue at 31 December	**-**	6,510,598

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

15. Asset retirement obligation

		As at 31 December
	2013	2012
	$'000	$'000
Asset Retirement obligation	**-**	50
	-	50

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.

15. Asset retirement obligation (continued)

The Shenandoah-1 well, which was tested in November 2011, has been plugged and abandoned. The Company has no asset retirement obligations/ rehabilitations at 31 December 2013.

16. Accounts payable and accrued expenses

		As at 31 December
	2013	2012
	$'000	$'000
Trade payables	**207**	45
Accruals	**414**	1,060
	621	1,105

17. Related party loans

		As at 31 December
	2013	2012
	$'000	$'000
Related party loans - Falcon Oil & Gas Ltd	**12,286**	9,435
	12,286	9,435

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. 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. On 9 January 2014, the Loan facility was further extended to 30 June 2014.

18. 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.

Falcon Australia has now completed the two agreements to acquire 8% (eight twelfths) of the privately held ORRI at a total cost of just $7 million, of which $6 million is payable only upon completion of a farm – out. In addition, Falcon Australia has secured agreement to acquire a further 3% (three twelfths) based on two five year call options granted to Falcon Australia at a future combined cost of $20 million leaving only a 1% Royalty in private hands.

19. Capital Commitments

Under the terms of Falcon Australia's exploration permit EP-99 Falcon Australia must spend a minimum of $1.5 million by 31 December 2014 in collecting 2D seismic data on acreage within exploration permit EP-99. Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources.

Under existing agreements with certain advisors, the Company is obligated to pay a success fee for services provided in relation to certain of the Company's assets. The success fees are based on the cash or cash equivalent value of the net amount received directly or indirectly by the Company. The agreements have been terminated during 2011 and 2012 respectively but payments will continue after termination until all relevant amounts are settled.

20. Subsequent events

There were no significant events after the balance sheet date.

21. 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.

22. Approval of Financial Statements

These Financial Statements were approved by the Board of Directors and authorised for issue on 29 April 2014.

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