



ABN 53 132 857 008

Falcon Oil & Gas Australia Limited

Financial Report
Year Ended 31 December 2016

(Presented in U.S. Dollars)

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Operating and Financial Review

Beetaloo Basin, Northern Territory, Australia

Overview

Falcon Oil & Gas Australia Limited ("**Falcon Australia**") is one of the three registered holders of approximately 4.6 million gross acres (approximately 18,619 km²), 1.4 million net acres, of three exploration permits in the Beetaloo Basin, Northern Territory, Australia. The Beetaloo Basin is located 600 kilometres south of Darwin close to infrastructure including a highway, a pipeline and a railway, offering transport options to the Australian market and beyond via the existing and proposed liquified natural gas capacity in Darwin.

The Beetaloo 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 km²) and is a relatively underexplored onshore exploration basin, as far as the Company is aware. The area is remote and sparsely populated and the Board believes that it is well suited for oil and gas projects. Australia has a developed resources industry with a stable political, legal and regulatory system.

Exploration Permits

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

Assets	Interest (%)	Operator	Status	Gross Area (km²)
Exploration Permit EP-76 (Beetaloo Basin, Northern Territory, Australia)	30	Origin ⁽ⁱ⁾	Exploration	1,891.3
Exploration Permit EP-98 (Beetaloo Basin, Northern Territory, Australia)	30	Origin ⁽ⁱ⁾	Exploration	10,316.0
Exploration Permit EP-117 (Beetaloo Basin, Northern Territory, Australia)	30	Origin ⁽ⁱ⁾	Exploration	6,412.0

(i) Falcon Australia completed its farm-out with Origin Energy Resources Limited, a subsidiary of Origin Energy Limited ("**Origin**") and Sasol Petroleum Australia Limited, a subsidiary of Sasol Limited ("**Sasol**"), collectively referred to herein as (the "**Farminees**") on 21 August 2014. On completion, Origin was appointed as Operator of the exploration permits.

In accordance with local law and regulations, all Falcon Australia's acreage interests are subject to combined Government and Northern Land Council royalties on production values of up to approximately 12% and 1% (subject to the exercise of Falcon Australia's call option - see "*Overriding Royalty Beetaloo Basin exploration permits*" for details) to other parties. In addition, Falcon Australia is subject to Commonwealth Government corporation tax of 30%, however where the entity has aggregated annual turnover of less than A\$2 million for the financial year Falcon Australia would be considered a small business entity for Australian tax purposes and would be taxed at a lower rate of 28.5%. Falcon Australia is also subject to the Commonwealth Government's Petroleum Resource Rent Tax ("**PRRT**") levied at the rate of 40% on the taxable profits derived from the petroleum projects. The PRRT is calculated on the individual projects, and royalties are deductible for PRRT purposes. The PRRT tax system is separate from the company income tax system and is based on cash flow. Both royalties and PRRT are deductible for corporate income tax purposes.

Overriding Royalty Beetaloo Basin exploration permits

On 1 November 2013, it was announced that Falcon Australia had entered into an agreement ("**CRIAG Agreement**") with CR Innovations AG ("**CRIAG**") to acquire its 4% overriding royalty interest ("**ORRI**") relating to its exploration permits in the Beetaloo Basin. On 17 December 2013, Falcon announced that Falcon Australia had entered into an agreement ("**TOG Agreement**") with Malcolm John Gerrard, Territory Oil & Gas LLC and Tom Dugan Family Partnership LLC ("**TOG Group**") to acquire up to 7% (seven eighths) of their 8% private ORRI over Falcon Australia's exploration permits in the Beetaloo Basin. Falcon Australia completed the two agreements to acquire 8% of the privately held ORRI at a total cost of \$7 million, of which \$1 million was paid in November 2013 and \$6 million on completion of the Beetaloo farm-out with Origin and Sasol in August 2014. In addition, Falcon Australia has secured an agreement to acquire a further 3% based on two five year call options granted to Falcon Australia at a future combined cost to Falcon Australia and its Farminee partners, in their proportionate share of \$20 million leaving only a 1% royalty in private hands.

Discoveries and Prospectivity

The Board believes the Beetaloo Basin is relatively underexplored and has shale oil and shale gas potential. Work was previously 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 oil and gas shows and oil indications on cores throughout the Beetaloo Basin in prospective formations. The Shenandoah-1 well was a vertical hole well drilled by Sweetpea Petroleum Pty Ltd. ("**Sweetpea**") in 2007. The well was deepened by Falcon Australia in 2009 to finish at 2,714 metres. It was re-entered in Quarter 3 2011 and five short tests were conducted including several fracking operations. Gas was recovered from three zones with some liquids.

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

On 12 October 2016 it was announced that Origin had submitted a notification of discovery and an initial report on discovery ("**Notification of Discovery**") to the Department of Primary Industry and Resources of the Northern Territory, Australia ("**DPIR**") on the Amungee NW-1H well in the Beetaloo Basin, Australia. The Notification of Discovery is a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act.

On 15 February 2017 it was announced Origin had submitted the Results of Evaluation of the Discovery and Preliminary Estimate of Petroleum in Place for the Amungee NW-1H Velkerri B Shale Gas Pool ("**Discovery Evaluation Report**") to the Northern Territory Government.

The Discovery Evaluation Report provides volumetric estimates and recovery / utilisation factors for the B Shale member of the Middle Velkerri Formation within permits EP76, EP98, and EP117.

Origin also prepared a contingent gas resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data.

Full details relating to the Notification of Discovery, the Discovery Evaluation Report and the contingent gas resource estimate are included under the Current Activity heading on pages 5 - 10.

Transformational Farm - out of Beetaloo unconventional acreage

On 21 August 2014, Falcon Australia completed its farm-out agreement and joint operating agreement (collectively the "**Agreements**") with the Farminees, each farming into 35% of Falcon Australia's exploration permits in the Beetaloo Basin, Australia (the "**Permits**").

The transaction details were:

- Falcon Australia received A\$20 million cash from the farminees.
- Origin was appointed as Operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal program, detailed as follows:
 - 3 vertical exploration/stratigraphic wells and core studies;
 - 1 hydraulic fracture stimulated vertical exploration well and core study;
 - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
 - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retains a 30% interest in the Permits.
- Farminees to pay for the full cost of completing the first five wells estimated at A\$64 million and to fund any cost overruns.
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic data collection with a capped expenditure of A\$53 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A\$48 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees may reduce or surrender their interests back to Falcon Australia only after:
 - The drilling of the first five wells or
 - The drilling and testing of the next two horizontally fracture stimulated wells.

Operating and Financial Review (continued)

Originally Falcon Australia indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. Given the introduction of a moratorium on hydraulic fracturing in September 2016 by the Northern Territory government, this will delay the completion of the nine well programme.

Furthermore, pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

Current Activity

On 15 July 2015, the spudding of the Kalala S-1 well in the Beetaloo Basin, Australia was announced. Kalala S-1 was the first of Falcon's fully funded and uncapped 2015 three well drilling and evaluation programme. Kalala S-1 targeted the Middle Velkerri formation to assess hydrocarbon saturation and reservoir quality. It is located within exploration permit 98, with access from the existing Carpentaria Highway. Rig 185, an ATS 400 was commissioned from Saxon Energy Services Australia Pty. Ltd., a Schlumberger company. On 1 September 2015 it was announced that drilling operations had successfully concluded on the Kalala S-1 well, with the well drilled to a total depth ("TD") of 2,619 metres.

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

The drilling of the first horizontal well in the Beetaloo Basin programme, originally planned for the end of 2016 was brought forward into October - November 2015. Based on the high gas saturation and favourable shale properties encountered in the Amungee NW-1 vertical well, the Middle Velkerri B shale was selected as the target of a 1,100 metre horizontal section, representing the "Amungee NW-1H" well.

The exploration program was also expanded with the introduction of Diagnostic Fracture Injection Tests ("DFITs"). DFIT is the most adequate tool to obtain reservoir quality data, such as pressure and permeability and completion quality data, all pertaining to the prospectivity of the Middle Velkerri shale gas play.

On 18 November 2015 the successful conclusion of drilling operations on the Amungee NW-1H horizontal well was announced. Total measured depth was 3,808 metres, including a 1,100 metre horizontal section in the "B Shale" interval of the Middle Velkerri formation. The Amungee NW-1H well was suspended until the performance of the multi-stage hydraulic fracture stimulation planned for mid-2016.

Rig 185 was "warm stacked" on location in the Beetaloo basin to allow for the early commencement of the 2016 drilling program.

On 28 April 2016 the following updates on operations in the Beetaloo Basin, Australia were provided.

2015 Drilling Programme - Technical Results

The results from the in-depth shale evaluation program and petrophysical analysis of the three wells drilled in 2015 confirmed the following:

- The Middle Velkerri and Kyalla shales offer stacked play fairways with continuity over a large proportion of the Beetaloo Basin and in various maturity windows (dry gas to liquid).
- Three pervasive, organic rich shale intervals were identified and characterised within the Middle Velkerri formation with excellent reservoir and completion quality. The identified "B" and "C" shales have thickness in excess of 40 metres each.
- Amungee NW-1H, the first horizontal well in the programme landed in the Middle Velkerri "B" shale encountering excellent gas shows and represents a highly prospective candidate for multi-stage hydraulic fracture stimulation.
- Core analysis confirmed that the Middle Velkerri shale is organic rich, with average Total Organic Carbon ("TOC") of 3%-4% and is gas saturated.
- DFIT data revealed that the Middle Velkerri shale is 20%-25% overpressured, which is encouraging from both a volumetrics and reservoir productivity perspective.
- Favourable geomechanics indicates good frackability within the Middle Velkerri shale.
- Estimated gas in-place density ranges within the Middle Velkerri shales are comparable to successful North American shale plays.

Operating and Financial Review (continued)

2016 Drilling and Testing Programme - Objectives

The objectives of the 2016 Beetaloo drilling and testing programme comprised:

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

On 22 June 2016 an operational update noting the following was provided:

- Operations to re-enter the horizontal Amungee NW-1H well had commenced and Origin expected the running of production casing and cementing to be completed by the end of June.
- A multi-stage fracture stimulation programme to test the Middle Velkerri "B" shale reservoir would be performed on Amungee NW-1H.
- Civil works at the Beetaloo W-1 vertical well commenced mid-May 2016.

On 25 July 2016 the successful re-entry and casing of the Amungee NW-1H horizontal well and the spudding of the Beetaloo W-1 vertical well in the Beetaloo Basin, Australia was announced.

Amungee NW-1H

The 1,100 metre horizontal section of Amungee NW-1H was successfully cased and cemented in July 2016 and preparations were finalised to conduct a multi-stage hydraulic stimulation.

Beetaloo W-1

The Beetaloo W-1 well was the fourth of Falcon's fully carried five well 2015-2016 drilling and evaluation programme.

- This well, targeting the unexplored southern Beetaloo Basin for shale and hybrid shale-sand plays in the Velkerri and Kyalla formations, was spudded on 22 July 2016.
- The well was designed to test the presence, depth, thickness and physical reservoir properties of the organic rich mudstones of the Kyalla formation and the Middle Velkerri member.
- The well is within exploration permit 117, is located approximately 85 kilometres south of Kalala S-1.
- Rig 185, an ATS 400 originally commissioned for the drilling of Kalala S-1, Amungee NW-1 and Amungee NW-1H from Saxon Energy Services Australia Pty. Ltd. was used.

On 14 September 2016 a technical and operational update was provided including the announcement of the Northern Territory Government moratorium. Details were as follows:

Beetaloo W-1 well

Drilling operations were successfully concluded on the Beetaloo W-1 well. Results encountered were very encouraging, with the well drilled to TD of 3,173 metres.

Preliminary evaluation of this vertical exploration well confirmed:

- The continuation of the regionally pervasive Middle Velkerri formation approximately 85 kilometres south of the Kalala S-1 and Amungee NW-1H wells.
- A gross interval of over 570 metres shale gas sequence with net pay exceeding 150 metres.
- Middle Velkerri shale falls in a highly prospective gas mature depth window.
- Excellent gas shows at two prospective shale sweet spots at the top and base of the Middle Velkerri formation, comparable to those encountered during the 2015 drilling programme.
- The Lower Kyalla formation, considered as a secondary shale target, provided excellent gas shows within a 150 metre thick liquid rich sequence.

Conventional coring in the Lower Kyalla formation along with sidewall cores and extensive wireline logging in the Middle Velkerri formation enabled a full-scale evaluation of prospectivity in the southern part of the Beetaloo basin. As planned, the well was cased to TD and suspended.

Operating and Financial Review (continued)

Rig 185 was released and demobilised.

Hydraulic Stimulation of the Horizontal Amungee NW-1H Well

- Hydraulic stimulation of the horizontal Amungee NW-1H well was completed.
- 11 hydraulic stimulation stages were performed over a 1,000 metre horizontal section.
- The flow back of hydraulic stimulation fluids had commenced, with an expectation that gas would start flowing back to surface within one to two weeks.

Northern Territory Government Moratorium

The statement made by Chief Minister Michael Gunner of the Northern Territory in relation to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia was noted:

“The moratorium on hydraulic fracturing of onshore unconventional reservoirs within the Northern Territory will remain in place until government has thoroughly considered the recommendations of the [independent scientific] inquiry.”

The joint venture has undertaken to work with the Government to understand their moratorium policy and shall cooperate with them as required during their scientific inquiry.

On 29 September 2016 the following technical update regarding the hydraulic stimulation of the horizontal Amungee NW-1H well was provided:

- Completion of 11 hydraulic stimulation stages along the 1,000 metre horizontal section in the Middle Velkerri B shale zone.
- Stimulation treatments were successfully executed, with 95% of programmed proppant placed.
- Flow back of hydraulic fracture stimulation fluid to surface continued.
- Early stage gas flow rates through the 4.5” casing were encouraging.
- The rates regularly exceeded 1 million standard cubic feet per day (“**MMscf/d**”), and consistently ranged between 0.4 - 0.6 MMscf/d.
- A workover rig was being mobilised to run production tubing and to commence an extended production test (“**EPT**”).

On 12 October 2016 it was announced that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin, Australia. The Notification of Discovery is a requirement per the Reporting a Petroleum Discovery Guideline under the Northern Territory Petroleum Act.

Details of Notification of Discovery from Origin to the DPIR were as follows:

- Origin gathered sufficient data to confirm the discovery of a petroleum accumulation.
- Production test data supported by petrophysical log data along with full and sidewall core analysis confirmed the discovery.
- Gas rates ranged between 0.8 and 1.2 MMscf/d with continuing flow back of hydraulic fracture stimulation fluid of volumes between 100 and 400 barrels per day.
- Initial estimates suggested a dry gas composition with less than 4% CO₂.
- Main physical properties of the discovered accumulation were thickness of 30 metres, between 4.0% and 7.5% porosity, a gas saturation range of 50% to 75%, and permeability between 50 and 500 nano-Darcy.
- Evaluation to determine the resource size was underway.

On 22 December 2016 the completion of the EPT on Amungee NW-1H by Origin was announced.

Details of the EPT were as follows:

- Initial production over the first 30 days averaged 1.11 MMscf/d
- 63 MMscf was produced over the 57 days of the EPT, at an average rate of 1.10 MMscf/d
- The final rate of the EPT was 1.07 MMscf/d
- Completed in line with a regulatory approved plan with no environmental incidents
- The EPT concluded the 2016 drilling programme
- A final discovery report would be prepared for submission to the DPIR in Q1 2017.

On 15 February 2017 it was announced that Origin had submitted a Discovery Evaluation Report to the Northern Territory Government.

The submission followed the completion of extended production testing at the Amungee NW-1H exploration well of the “B Shale” member of the Middle Velkerri formation.

Operating and Financial Review (continued)

In addition, Origin undertook a resource study based on the Amungee NW-1H well results and other key wells in the Beetaloo Basin including regional seismic data to determine a best estimate (“2C”) contingent gas resource estimate for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117.

Key Details of the Discovery Evaluation Report

The Discovery Evaluation Report was submitted in compliance with Section 64 of the Northern Territory Petroleum Act (2016) and as per the Reporting a Petroleum Discovery Guideline. The Discovery Evaluation Report followed the initial submission of the Notification of Discovery in October 2016. It provides the following volumetric estimates and recovery / utilisation factors for the B Shale member of the Middle Velkerri Formation within permits EP76, EP98, and EP117.

Middle Velkerri B Shale Volumetric Estimates as of 15 February, 2017 ⁽¹⁾		
	Gross	Net Attributable ⁽²⁾
	Best Estimate	Best Estimate
Area km ² ⁽³⁾	16,145	4,751
Original Gas In Place (“OGIP”) (TCF) ⁽⁴⁾	496	146
Combined Recovery / Utilisation Factor ⁽⁵⁾	16%	16%
Technically Recoverable Resource (TCF)	85	25
OGIP Concentration (BCF/km ²) ⁽⁶⁾	31	31
¹ The Report and estimates included in the table above were not prepared in accordance with the Society of Petroleum Engineers Petroleum Management System (“SPE-PRMS”). ² Falcon’s working interest is 29.43%, net attributable numbers do not incorporate royalties over the permits ³ Area defined by a depth range at a maturity cut-off consistent with the dry gas window within the Beetaloo JV Permits (EP79, EP98, EP117) ⁴ Trillion cubic feet ⁵ The combined recovery/utilization factor range was applied stochastically to the OGIP range to calculate the range of technically recoverable resource within the Beetaloo JV permits. ⁶ Billion cubic feet per square kilometre		

Understanding the factors controlling deliverability and recovery as well as spatial variation within the gas play/shale pool are in their infancy. A quantitative assessment of the aggregated estimated recoverable resource of the gas play that can handle these complexities will require a statistically significant number of wells testing the gas play. As there is only a single production test within the gas play Origin decided upon a qualitative assessment approach instead to estimate the technically recoverable resource. There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources.

Factors considered in the qualitative assessment of technically recoverable hydrocarbon resources in the gas play were the stimulated rock volume recovery factor range, the subsurface utilization factor range and surface utilization factor range.

Origin’s Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117

Origin also prepared a contingent resource estimate using probabilistic methods and reservoir evaluation data, in addition to regional seismic data.

Assessment of 2C Contingent Gas Resource Estimates for the Middle Velkerri B Shale Pool within EP76, EP98 and EP117 as of 15 February, 2017¹		
Measured and Estimated Parameters	Units	Best Estimate
Area ²	km ²	1,968
OGIP ³	TCF	61.0
Gross Contingent Resource⁴	TCF	6.6
Net Contingent Resource^{4,5}	TCF	1.98
¹ Contingent resource estimates were prepared on a statistical aggregation basis and in accordance with the SPE-PRMS. Contingent resource estimates are those quantities of gas (produced gas minus carbon dioxide and inert gasses) that are potentially recoverable from known accumulations but which are not yet considered commercially recoverable due to the need for additional delineation drilling, further validation of deliverability and original gas in place, and confirmation of prices and development costs. ² P50 area from the Contingent Resource area distribution ³ OGIP presented is the product of the P50 Area by the P50 OGIP per km ² ⁴ Estimated gas contingent resource category of 2C. There is no certainty that it will be commercially viable to produce any portion of the resources ⁵ Net to Falcon’s 29.43% working interest in EP76, EP98, and EP117, net contingent resource number does not incorporate royalties over the permits		

Operating and Financial Review (continued)

As noted in Origin's press release the "The contingent resource estimates contained in [their] report are based on, and fairly represents, information and supporting documentation that have been prepared by Alexander Côté who is a full-time Origin employee and a Qualified Reserves and Resource Evaluator. Mr Côté is a registered professional engineer with specialised unconventional gas resource characterisation and development experience. Mr Côté has consented to the form and context in which these statements appear".

Further information relating to the disclosure of the contingent gas resource estimates

Well Name	Amungee NW-1H
Permit / location	EP98 (onshore Beetaloo Basin Northern Territory, Australia)
Working interest in well	Falcon Australia 29.43%
Product type	Shale gas
Geological rock type of formation drilled	Organic rich shale (mudstone and siltstone)
Depth of zones tested	~2170-2190 metres below sea level
Type of test	Production test following hydraulic fracture stimulation
Hydrocarbon phases recovered	Gas (Approximate composition: methane ~92%, ethane+ ~3%, carbon dioxide and inerts ~5%)
Flow rates and volumes	Average rate (57 days): 1.1 MMscf/d, Final production rate: 1.07 MMscf/d, Cumulative production: 63 MMscf
Number of fracture stimulation stages	11 stages (average size ~ 100 ton per stage)
Risks and level of uncertainty with recovery of resources	<p>Risks and uncertainties include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, completing longer-duration production testing above the 57 days conducted on Amungee NW-1H, reducing well costs with scale of activity, establishing gas sales agreements and building infrastructure to connect the resource to market.</p> <p>Contingent on the moratorium being lifted, additional appraisal drilling is planned (as per the work program associated with the permits), along with hydraulic fracture stimulation and testing to assess deliverability and move the project towards commercialisation.</p>
Significant positive and negative factors relevant to the estimate	<p>Significant positive factors relevant to the estimate of the contingent resources include the successful well test at Amungee NW-1H which produced enough gas to surface to be of commercial interest; core and log data from Amungee NW-1H, Beetaloo W-1, Kalala S-1, Tanumbirini-1, McManus-1, Aintree-2 and Walton-2 provide convincing evidence of a significant volume of moveable hydrocarbons; and the Marcellus Shale (Pa., USA) and Barnett Shale (Tx., USA) are analogous, commercially-productive fields that are similar to the Velkerri B Shale reservoir.</p> <p>Significant negative factors include the lifting of the Northern Territory moratorium on hydraulic fracture stimulation, the limited number of wells on the Company's acreage, lack of a developed service sector providing uncertainty regarding estimates of capital and operating costs, developing hydrocarbon regulations and environmental legislation and the requirement to obtain social acceptability for oil and gas operations.</p>
Commerciality	Currently this project is based on a conceptual study. The economic status is undetermined at this time. The contingent resources will continue to be assessed as additional appraisal wells are drilled and tested in order to better evaluate the commercial potential of the play. After a sufficient number of wells have been drilled to demonstrate that the project is technically feasible and a development plan has been generated, economics can be run to determine commerciality of production.

Operating and Financial Review (continued)

Suspension of Drilling Operations

Since the introduction of a moratorium on hydraulic fracturing in September 2016, the Northern Territory Government established an independent scientific inquiry. Pending the outcome of this independent inquiry, Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

Falcon Australia had originally indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme.



Philip O'Quigley
Chairman

13 April 2017

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 2016.

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 2016 was \$0.1 million (2015: loss of \$0.4 million).

Dividends

There were no dividends paid or declared by the Company during the year ended 31 December 2016 (2015: nil).

State of affairs

On 25 July 2016 the successful re-entry and casing of Amungee NW-1H horizontal well and the spudding of the Beetaloo W-1 vertical well in the Beetaloo Basin, Australia were announced.

A technical and operational update on the conclusion of drilling operations on the Beetaloo W-1 well to a TD of 3,173 metres and the completion of the 11 stage hydraulic stimulation of the horizontal Amungee NW-1H well was provided on 14 September 2016.

Falcon also noted the statement made by Chief Minister Michael Gunner of the Northern Territory, in relation to the introduction of a moratorium on hydraulic fracturing in the Northern Territory, Australia. The Chief Minister stated that:

"The moratorium on hydraulic fracturing of onshore unconventional reservoirs within the Northern Territory will remain in place until government has thoroughly considered the recommendations of the [independent scientific] inquiry."

On 12 October 2016 it was announced that Origin had submitted a Notification of Discovery to the DPIR on the Amungee NW-1H well in the Beetaloo Basin.

The results of the 57 day extended production test on Amungee NW-1H by Origin was announced on 22 December 2016.

On 15 February 2017 it was announced that Origin had submitted the Discovery Evaluation Report to the Northern Territory Government and that further to the submission to the DPIR Origin had prepared a contingent resource estimate. Falcon also noted that pending the outcome of this independent inquiry, Origin had requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

The Group had originally indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme.

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

Falcon Oil & Gas Australia Limited
Directors' Report
Year ended 31 December 2016

Directors' Report (continued)

Directors and company secretary

The names of the persons who were Directors and Company Secretary at any time during the period ended 31 December 2016, the comparative year, and up to the date of the signing of this Financial Report are set out below. Unless indicated otherwise they served as directors for the entire period:

Name	Role	Date of appointment
Philip O'Quigley	Chairman & Executive Director	Appointed 1 May 2012
Anne Flynn	Finance Director	Appointed 30 January 2017
John Carroll	Non - Executive Director	Appointed 31 July 2010
Stephen Peterson	Non - Executive Director and Company Secretary	Appointed 5 August 2008 as company secretary; Appointed 17 February 2014 as Non – Executive Director
Michael Gallagher	Finance Director	Appointed 7 January 2015 Resigned 4 October 2016
John Craven	Non - Executive Director	Appointed 10 December 2010 Resigned 8 July 2016

Details of Directors' and Company Secretary's Biographies are included in the Directors' and Company Secretary's Biographies section on pages 14 and 15 of the financial report.

Directors' meetings

The number of directors' meetings held, including meetings held by telephone, and the number of those meetings attended by each of the directors of the Company, while a director during the year ended 31 December 2016 were as follows:

	Board meetings	
	Number of meetings held	Number of meetings attended
Philip O'Quigley	1	1
Michael Gallagher	1	1
John Carroll	1	1
John Craven	1	0
Stephen Peterson	1	1

Written resolutions were provided by the Board members, for various significant matters, pertaining to the Company which occurred in 2016.

Operating and financial review

The operating and financial review of the Company during the year is detailed on pages 3 to 10 of this financial report.

Environmental regulation

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

Directors' Report (continued)

Events subsequent to reporting date

There were no significant events after the reporting date.

Likely developments

Falcon Australia had previously indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme. Pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

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 17 and forms part of the directors' report for the year ended 31 December 2016.

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


Philip O'Quigley
Chairman
13 April 2017

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 2016, and until the date of this report.

Philip O'Quigley – Chairman & Executive Director

Mr. O'Quigley is President and CEO of Falcon Oil & Gas Ltd, the parent company of Falcon Oil & Gas Australia Ltd, and brings over 25 years' experience in senior management positions in the oil and gas industry. His career, which spans a number of London and Dublin listed exploration and production companies, includes experience working in countries such as Argentina, the United States, Algeria, the UK and Ireland. Before joining Falcon, 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.

Anne Flynn - Finance Director

Ms. Flynn was appointed as Finance Director of Falcon Oil & Gas Australia Ltd in January 2017. Ms. Flynn is also Chief Financial Officer of Falcon Oil & Gas Ltd ("**Falcon**"), the parent company of Falcon Oil & Gas Australia Ltd. Anne joined Falcon in September 2014 as Group Financial Controller with responsibility for the Group's Dublin, Hungarian, Australian and South African finance and commercial functions following over three years in a managerial role with Adobe Systems Inc. Prior to Adobe, she worked with PwC Dublin and PwC New York for six years. Anne is a member of Chartered Accountants Ireland.

John Carroll – Non - Executive Director

Mr. Carroll is a private consultant specialising in government relations and major project facilitation and has more than 40 years' experience in a wide cross - section of public sector positions in Canberra, Queensland and the Northern Territory. Mr. Carroll was Chief Executive Officer of the NT Department of Industries and Business from March 2000 until November 2001. Following that he was General Manager, Business and Trade Development, and Deputy Chief Executive and General Manager, Minerals and Energy, NT Department of Business Industries and Resource Development. In May 2005 he was appointed Chief Executive, NT Department of Primary Industry, Fisheries and Mines and held this position until November 2008.

Stephen Peterson - Non - Executive Director and Company Secretary

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

Michael Gallagher - Finance Director (Resigned October 2016)

Mr. Gallagher was appointed as Finance Director of Falcon Oil & Gas Australia Ltd in January 2015 and resigned in October 2016. Mr. Gallagher was Chief Financial Officer of Falcon Oil & Gas Ltd, the parent company of Falcon Oil & Gas Australia Ltd. up to October 2016. Mr. Gallagher joined Falcon in October 2012 as Group Financial Controller with responsibility for the Group's Dublin, Hungarian and Australian finance and commercial functions. Mr. Gallagher brought over a decade of experience working with PricewaterhouseCoopers ("PwC") in Ireland and the USA. At PwC, Mr. Gallagher worked with and advised both quoted and unquoted oil and gas exploration and production companies. From September 2014, Mr. Gallagher is Member of the Accounting Council of the Financial Reporting Council ("FRC") which is responsible for accounting standards in the UK and Ireland. Mr. Gallagher is a Fellow of Chartered Accountants Ireland.

Directors' and Company Secretary's Biographies (continued)

John Craven – Non - Executive Director (Resigned June 2016)

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 was a Non Executive Director of Falcon Oil & Gas Ltd, the parent company of Falcon Oil & Gas Australia Ltd up to June 2016. He is the CEO of Discover Exploration Limited and his career has been noted for a series of successful new venture negotiations, the exploration of which led to major discoveries in Mozambique, Algeria, Colombia, offshore Ghana and Indonesia. Along with his co - directors, he led Ardmore Petroleum, Dana Petroleum, Petroceltic International and recently Cove Energy through the acquisition of major upstream assets and key exploration and developmental milestones. During this time Mr. Craven has been actively involved in corporate finance and was responsible for raising initial capital through private sources and floating Petroceltic International on the Irish Stock Exchange and Cove Energy on AIM. Mr. Craven holds an MSc in Petroleum Geology from the Royal School of Mines in London and an MBA from Queen's University in Belfast. Mr. Craven resigned as a non-executive director of Falcon Oil & Gas Australia Ltd. in June 2016.

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Falcon Oil & Gas Australia Limited
Directors' Declaration
Year ended 31 December 2016

Directors' Declaration

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

- (a) the Company is not a reporting entity;
- (b) the financial report and notes, set out on pages 20 to 34 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 2016 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in Note 2; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note 2 and the Corporations Regulations 2001; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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


Philip O'Quigley
Chairman
13 April 2017



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Fax: +61 8 6382 4601
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PO Box 700 West Perth WA 6872
Australia

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

As lead auditor of Falcon Oil & Gas Australia Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 13 April 2017



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INDEPENDENT AUDITOR'S REPORT

To the members of Falcon Oil & Gas Australia Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Falcon Oil & Gas Australia Limited, which comprises the statement of financial position as at 31 December 2016, the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 31 December 2016 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards to the extent described in Note 2, and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other information

The directors are responsible for the other information. The other information comprises the information in the Directors' report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_files/ar3.pdf

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink that reads 'BDO' on the top line and 'J Prue' on the bottom line.

Jarrad Prue

Director

Perth, 13 April 2017

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

	Notes	Year Ended 31 December 2016 \$'000	Year Ended 31 December 2015 \$'000
Revenue			
Oil and natural gas revenue		-	-
Expenses			
General and administrative expenses	5	(128)	(146)
Foreign exchange		-	22
Other expenses		-	(240)
		(128)	(364)
Results from operating activities		(128)	(364)
Finance expense	7	-	(22)
Net finance expense		-	(22)
Income tax expense		-	-
Net loss and comprehensive loss for the year		(128)	(386)

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Financial Position

		At 31 December 2016 \$'000	At 31 December 2015 \$'000
	Notes		
Assets			
Non - current assets			
Exploration and evaluation assets	8	39,618	39,618
Trade and other receivables	9	22	22
		39,640	39,640
Current assets			
Cash and cash equivalents	10	12	16
Trade and other receivables	11	3	3
		15	19
Total assets		39,655	39,659
Equity and liabilities			
Equity			
Share capital	12	45,642	45,642
Accumulated Losses		(8,629)	(8,501)
Total equity		37,013	37,141
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	13	228	236
Related party loans	14	2,414	2,282
Total liabilities		2,642	2,518
Total equity and liabilities		39,655	39,659

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Changes in Equity

	Share capital \$'000	Accumulated Losses \$'000	Total Equity \$'000
At 1 January 2015	45,642	(8,115)	37,527
Net loss for the year	-	(386)	(386)
Net loss and total comprehensive loss for the year	-	(386)	(386)
At 31 December 2015	45,642	(8,501)	37,141
At 1 January 2016	45,642	(8,501)	37,141
Net loss for the year	-	(128)	(128)
Net loss and total comprehensive loss for the year	-	(128)	(128)
At 31 December 2016	45,642	(8,629)	37,013

The notes are an integral part of these financial statements.

Falcon Oil & Gas Australia Limited
Statement of Cash Flows

		Year Ended 31 December	
	Notes	2016	2015
		\$'000	\$'000
Cash flows from operating activities			
Net loss for the period		(128)	(386)
Adjustment for:			
Net finance expense	7	-	22
Other expenses		-	240
Changes in working capital			
Trade and other receivables		-	19
Accounts payable and accrued expenses		(8)	(46)
Other		-	(22)
Net cash used in operating activities		(136)	(173)
Cash flows from financing activities			
Proceeds from related party loans		132	164
Net cash from / (used in) financing activities		132	164
Change in cash and cash equivalents		(4)	(9)
Effect of exchange rates on cash on cash equivalents		-	(2)
Cash and cash equivalents at beginning of year		16	27
Cash and cash equivalents at end of year		12	16

The notes are an integral part of these financial statements.

1. General Information

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

Falcon is incorporated in British Columbia, Canada and headquartered in Dublin, Ireland with a technical team based in Budapest, Hungary. Falcon’s Common Shares are traded on Toronto’s TSX Venture Exchange (“**TSX-V**”) (symbol: FO.V); AIM, a market operated by the London Stock Exchange (symbol: FOG) and ESM, a market regulated by the Irish Stock Exchange (symbol: FAC).

2. Accounting policies

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

Basis of preparation and going concern

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

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

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

The Company’s acquisition and exploration expenditure has been primarily funded by way of loan from its parent entity, Falcon Oil & Gas Ltd. This loan amounting to \$2.4 million is part of a \$14 million facility. The loan carried an interest at a rate of Libor + 2% up to a maximum of 7% up until 1 July 2015. From 1 July 2015, the loan became interest free. The facility exists until 31 December 2018 so long as the Company remains a 98.1% subsidiary of Falcon Oil & Gas Ltd. The loan is repayable on demand.

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

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

Statement of compliance

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

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

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

2. Accounting policies (continued)

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

The financial report was authorised for issue by the directors on 13 April 2017.

Historical cost convention

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

Functional and presentation currency

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

Overriding Royalty Interest

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

Call options

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

Financial assets

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

(i) Financial assets at fair value through the Statement of Profit or Loss and Other Comprehensive Income

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

(ii) Loans and receivables

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

Trade payables

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

Derivative financial instruments

Derivatives (including embedded derivatives) are initially recognised at fair value on 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 2016 or 31 December 2015.

2. Accounting policies (continued)

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

Share capital

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

Intangible exploration assets

(i) Recognition and measurement

- Exploration and evaluation (“E&E”) expenditures

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

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

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

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

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

- Development and production costs

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

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

(ii) Subsequent costs

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

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

2. Accounting policies (continued)

Leased assets

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

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

Impairment

(i) Financial assets

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

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

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

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

(ii) Non - financial assets

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

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

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

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

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

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

Provisions

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

2. Accounting policies (continued)

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

(i) Decommissioning provisions

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

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

Finance income and expenses

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

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

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

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

Income tax

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

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

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

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

Goods and services tax

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

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

2. Accounting policies (continued)

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

3. Critical accounting estimates and judgements

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

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

Critical judgments

(i) Exploration and evaluation assets

The carrying value of exploration and evaluation assets was \$39.6 million at 31 December 2016 (2015: \$39.6 million). The Company has determined that there are no indicators of impairment present in accordance with AASB 6 "Exploration for and evaluation of mineral interests" and thus impairment evaluations were not performed on the asset.

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

Results from the 2016 drilling programme were very encouraging which resulted in a Notification of Discovery to the DPIR in October 2016 and the submission of the Discovery Evaluation Report in February 2017. It has also resulted in the announcement of a contingent resource estimate by Origin.

Falcon Australia had previously indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme. Pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

Falcon Australia does not believe that the moratorium on hydraulic fracturing impacts the carrying value of the asset. The outcome of the inquiry is unknown, with recommendations expected to be made later this year. The joint venture remains fully committed to the project. The work programme and the announcements during 2016 and 2017 provide sufficient evidence to support the carrying value of the asset.

Critical estimates

(ii) Going concern

The financial statements have been prepared on the going concern basis. In considering the financial position of the Company, the Company has considered the forecasted operating and capital expenditures for the foreseeable future and cash flows relating to its financing. Forecasting those cash flows requires significant judgment when estimating expected operating expenditure, capital expenditure and the continued support of the parent company.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, 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.

Falcon Oil & Gas Australia Limited
Notes to the Financial Report
Year Ended 31 December 2016

5. General and administrative expenses

General and administrative expenses costs of:

	Year ended 31 December	
	2016	2015
	\$'000	\$'000
Accounting and audit fees	16	34
Consulting fees	62	32
Office and Administrative costs	15	19
Directors' fees	30	30
Travel and promotion	5	31
	128	146

6. Auditors' Remuneration

	Year ended 31 December	
	2016	2015
	\$'000	\$'000
Audit of financial report – BDO	10	17
Tax fees - BDO	3	9
	13	26

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

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

7. Finance expense

	Year ended 31 December	
	2016	2015
	\$'000	\$'000
Effective interest on loans and borrowings	-	(22)
Net finance expense	-	(22)

Interest costs noted above relate to the related party loan (refer to note 14). The interest owing has been recognised within the outstanding loan balance.

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Falcon Oil & Gas Australia Limited
Notes to the Financial Report
Year Ended 31 December 2016

8. Exploration & Evaluation assets

	Year ended 31 December	
	2016 \$'000	2015 \$'000
Opening balance at 1 January	39,618	39,619
Disposals	-	(1)
Balances as at 31 December	39,618	39,618

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

The impairment of intangible exploration assets, and any eventual reversal thereof, is recognised as additional depletion, depreciation and amortisation expense in the Statement of Profit or Loss and Other Comprehensive Income as impairment of non-current assets. As at 31 December 2016 and 31 December 2015, there were no indicators of impairment as defined by AASB 6, and as such no impairment testing was performed.

On 21 August 2014, Falcon Australia completed the Agreements with Origin and Sasol, each farming into 35% of Falcon Australia's Exploration Permits in the Beetaloo Basin, Australia.

The transaction details were:

- Falcon Australia received A\$20 million cash from the farminees.
- Origin was appointed as Operator.
- Farminees to carry Falcon Australia in a nine well exploration and appraisal program, detailed as follows:
 - 3 vertical exploration/stratigraphic wells and core studies;
 - 1 hydraulic fracture stimulated vertical exploration well and core study;
 - 1 hydraulic fracture stimulated horizontal exploration well, commercial study and 3C resource assessment; and
 - 4 hydraulic fracture stimulated horizontal exploration/appraisal wells, micro-seismic and 90 day production tests.
- Drilling/testing specifically planned to take the project towards commerciality. Falcon Australia retains a 30% interest in the Permits.
- Farminees to pay for the full cost of completing the first five wells estimated at A\$64 million, and to fund any cost overruns.
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic with a capped expenditure of A\$53 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A\$48 million, any cost overrun funded by each party in proportion to their working interest.
- Farminees may reduce or surrender their interests back to Falcon Australia only after:
 - the drilling of the first five wells or
 - the drilling and testing of the next two horizontally fracture stimulated wells.

Originally the Group indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme.

For an update on 2016/2017 drilling results please refer to the Operating and Financial Review.

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

	As at 31 December	
	2016 \$'000	2015 \$'000
Bonds for permits	22	22
	22	22

Falcon Oil & Gas Australia Limited
Notes to the Financial Report
Year Ended 31 December 2016

10. Cash and cash equivalents

	2016 \$'000	As at 31 December 2015 \$'000
Cash and cash equivalents	12	16
	12	16

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

11. Trade and other receivables (current assets)

	2016 \$'000	As at 31 December 2015 \$'000
Prepayments	2	3
Other receivables	1	-
	3	3

12. Share Capital

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

	Number of share	Share Capital \$'000
At 31 December 2015	206,393,237	45,642
At 31 December 2016	206,393,237	45,642

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

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

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

13. Accounts payable and accrued expenses

	2016 \$'000	As at 31 December 2015 \$'000
Trade payables	10	8
Accruals	218	228
	228	236

14. Related party loans

	2016 \$'000	As at 31 December 2015 \$'000
Related party loans - Falcon Oil & Gas Ltd	2,414	2,282
	2,414	2,282

The Company's acquisition and exploration expenditure has been primarily funded by way of loan from its parent entity, Falcon Oil & Gas Ltd. This loan amounting to \$2.4 million is part of a \$14 million facility. The loan carried an interest at a rate of Libor + 2% up to a maximum of 7% up until 1 July 2015. From 1 July 2015, the loan is interest free. The facility exists until 31 December 2018 so long as the Company remains a 98.1% subsidiary of Falcon Oil & Gas Ltd. The loan is repayable on demand.

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

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

16. Commitments and contingencies

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

The Company has planned a 9 well drilling programme which commenced in 2015 with its farm-out partners. The details are as follows:

- Farminees will pay for the full cost of completing the first five wells estimated at A\$64 million, and will fund any cost overruns.
- Farminees to pay the full cost of the following two horizontally fracture stimulated wells, 90 day production tests and micro seismic with a capped expenditure of A\$53 million, any cost overrun funded by each party in proportion to their working interest.

16. Commitments and contingencies (continued)

- Farminees to pay the full cost of the final two horizontally fracture stimulated wells and 90 day production tests capped at A\$48 million, any cost overrun funded by each party in proportion to their working interest.

Originally the Company indicated that it expected the work on the first five wells to be completed in 2016, the next two horizontally fracture stimulated wells to be undertaken in 2017 and the final two horizontally fracture stimulated wells to be undertaken in 2018. The introduction of a moratorium on hydraulic fracturing will delay the completion of the nine well programme.

Falcon Australia further notes that pending the outcome of the independent scientific inquiry which was established following the introduction of a moratorium on hydraulic fracturing Origin has requested a suspension of all drilling operations with the DPIR. The suspension request and a revised timetable for the remaining work programme are being finalised with the DPIR.

The Company has no other material commitments or contingencies.

17. Subsequent events

There were no significant events after the reporting date.

18. 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.

19. Approval of Financial Statements

This Financial Report was approved by the Board of Directors and authorised for issue on 13 April 2017.

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