FALCON OIL & GAS LTD.

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

Falcon Oil & Gas Ltd. ("**Falcon**") is refiling this management's discussion and analysis (the "**MD&A**") to include the Section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended December 31, 2011 as Compared to the Three Months Ended December 31, 2010" below.

The following MD&A was prepared as at April 30, 2012 (Re-filed June 6, 2012) and is management's assessment of Falcon's financial and operating results and provides a summary of the financial information of the Company for the year ended December 31, 2011. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and 2010.

The information provided herein in respect of Falcon includes information in respect of its wholly-owned operating subsidiaries Mako Energy Corporation ("**Mako**"), a Delaware company, TXM Oil and Gas Exploration Kft., a Hungarian limited liability company doing business as TXM Energy, LLC ("**TXM**"), TXM Marketing Trading & Service, LLC ("**TXM Marketing**"), a Hungarian limited liability company, , and its majority owned subsidiary, Falcon Oil & Gas Australia Limited ("**Falcon Australia**") (collectively, the "**Company**").

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2011 dated April 30, 2012, can be found on the System for Electronic Document Analysis and Retrieval (**"SEDAR"**) at www.sedar.com and Falcon's website at www.falconoilandgas.com.

Forward-looking Statements

Forward-looking statements include, but are not limited to, statements with respect to: the focus of capital expenditures; the sale, farming in, farming out or development of certain exploration properties using third party resources; the impact of changes in petroleum and natural gas prices on cash flow; drilling plans; processing capacity; operating and other costs; the existence, operation and strategy of the commodity price risk management program; the approximate and maximum amount of forward sales; the Company's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom; the Company's goal to sustain or grow production and reserves through prudent management and acquisitions; the emergence of accretive growth opportunities; the Company's ability to benefit from the combination of growth opportunities and the ability to grow through the capital markets; development costs and the source of funding thereof; the quantity of petroleum and natural gas resources or reserves; treatment under governmental regulatory regimes and tax laws; liquidity and financial capital; the impact of potential acquisitions and the timing for achieving such impact; expectations regarding the ability to raise capital and continually add to reserves through acquisition and development; the performance characteristics of the Company's petroleum and natural gas properties; and realization of the anticipated benefits of acquisitions and dispositions.

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the United States of America (the "**United States**"), the Republic of Hungary ("**Hungary**"), the Commonwealth of Australia ("**Australia**"), the Republic of South Africa ("**South Africa**") and globally;

supply and demand for petroleum and natural gas; industry conditions, including fluctuations in the price of petroleum and natural gas; governmental regulation of the petroleum and natural gas industry, including income tax, environmental and regulatory matters; fluctuation in foreign exchange or interest rates; risks and liabilities inherent in petroleum and natural gas operations, including exploration, development, exploitation, marketing and transportation risks; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut-in or delayed; the ability of our industry partners to pay their proportionate share of joint interest billings; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisition of reserves, processing and transportation capacity, undeveloped land and skilled personnel; the need to obtain required approvals from regulatory authorities; and the other factors considered under "Risk Factors" in the AIF.

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

Dollar Amounts

All dollar amounts below are in United States dollars, except as otherwise indicated. The financial information provided herein has been prepared in accordance with International Financial Reporting Standards ("**IFRS**")

OVERVIEW OF BUSINESS AND OVERALL PERFORMANCE

About Falcon

The Company is an international energy company engaged in the business of acquiring, exploring and developing petroleum and natural gas properties, with offices in Vancouver, British Columbia, Denver, Colorado, Budapest, Hungary and Sydney, Australia. The Company's registered office is located at 810-675 West Hastings Street, Vancouver, British Columbia, Canada V6B 1N2 and the Company's head office is located at 999 18th Street, Suite 1100, Denver, Colorado, U.S.A. 80202.

The Company's primary focus is the acquisition, exploration and development of conventional and unconventional petroleum and natural gas projects in Central Europe (specifically Hungary), Australia and South Africa.

Beetaloo Basin, Northern Territory, Australia

Falcon Australia is the registered owner of four exploration permits ("the **Permits**"), comprising 7,000,000 acres in the Beetaloo Basin, Northern Territory, Australia.

The Permits are subject to a government royalty of 10% and non-government royalties of 13%-14%.

Hess Participation Agreement

In June 2011, Falcon Australia and Hess Australia (Beetaloo) Pty Ltd. ("**Hess**") closed on an Evaluation and Participation Agreement (the "**E&P Agreement**"). Under the terms of the E&P Agreement, Hess paid $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 three of the four Permits, and excluding an area comprising 100,000 acres surrounding the Shenandoah-1 well (the "**Area of Interest**") and (ii) as consideration for warrants to acquire 10,000,000 common shares in the capital of

Falcon at an exercise price of CDN$0.19 per share. The warrants are exercisable commencing on November 14, 2011, and expire on January 13, 2015.

Initially, Hess shall acquire seismic data, at its sole cost of at least $40.0 million, over the Area of Interest within 18 months of the execution of the E&P Agreement. After acquiring the seismic data, Hess shall have the right to acquire a 62.5% working interest in the Area of Interest. If Hess acquires the working interest, they commit to drill and evaluate five exploration wells at their sole cost, one of which must be a horizontal well. All costs to plug and abandon the five exploration wells will also be borne solely by Hess. The drilling and evaluation of the five exploration wells must meet the minimum work requirements of the work program. Costs to drill wells after the five exploration wells will be borne 62.5% by Hess and 37.5% by Falcon Australia. As of December 31, 2011, Hess had completed approximately $10 million of the seismic program.

Hess has paid to the Company $2.0 million for Falcon Australia providing Hess copies of data obtained from the Shenandoah-1 well work program, which was completed in November 2011.

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

Under a revised work program approved by the Northern Territory of Australia Government, Department of Resources on July 6, 2011, the Company is obligated to complete a minimum work program of $18,152,000 in 2012, of which $16,626,000 will be borne by Hess as part of the acquisition of seismic under the E&P Agreement.

Operational Highlights

In November 2011, the full testing program of the Shenandoah 1 well was successfully carried out, with gas being produced from each of the shale intervals tested.

Shenandoah-1 is a vertical well situated in the deepest part of the basin and natural gas was the expected hydrocarbon at the depths being tested. The well is the first to be tested in these unconventional targets, consequently the objectives of the tests were to determine whether the shale intervals could be fracture-stimulated and whether they could produce hydrocarbons, and to confirm rock, pressure and fluid properties. The operation has succeeded in these objectives and the well has been plugged and abandoned.

The Shenandoah-1 test program was not designed for long-term testing with full clean-up of fluids, but rather to test for hydrocarbon production to surface over a period of four to six days and to gather the maximum information possible before moving on to the next interval according to program. For this reason and because these are shale zones in a vertical well with single stimulation treatments, high flow rates were not expected.

Five intervals were tested in accordance with the program. The gathered information is still to be fully interpreted for planning future appraisal and exploration operations. Preliminary results of the testing program were:

- Three of the five intervals flowed gas while still recovering significant amounts of frac fluid.
- The most positive results came from the Middle Velkerri shales where there was no indication of formation water being produced. The sustained gas rates ranged between 50 and 100 mscfpd

- The Lower Kyalla shale also produced gas to surface and will now be considered for further exploratory investigation.
- Two separate intervals were perforated in the Moroak sandstones. They were not stimulated but rather were conventional perforation tests, intended to find out if the rocks were gas-bearing and to provide technical information. Little to no commercial hydrocarbons were present. The test did however provide valuable rock property information as the Moroak is target of interest elsewhere in the Beetaloo Basin as a conventional play.
- The Upper Kyalla shale is oil-bearing in Shenandoah-1 but was not tested due to wellbore configuration.

Further evaluation of the extensive information gathered in this wellbore is now required before considering follow-up vertical and horizontal exploration wells. In order to locate future wells optimally it is likely that some additional seismic lines will need to be acquired in the Shenandoah area.

Hungary

The Company holds a long-term Mining Plot (the "**Production License**") granted by the Hungarian Mining Authority. The lands within the Production License were formerly part of the Company's two petroleum and natural gas exploration licenses – the Tisza License and the Makó License (collectively, the "**Exploration Licenses**"). The Production License, covering approximately 245,700 acres, gives the Company the exclusive right to explore for and appraise petroleum and natural gas on properties located in south central Hungary near the town of Szolnok. The Production License further gives the Company the exclusive right to commercially develop petroleum and natural gas within the area covered by that license. The Production License incorporates depths beginning at 7,546 feet (2,300 meters) from the surface, and extends to the basement of the Makó Trough, Pannonian hydrocarbon accumulation.

Makó Production License Letter of Intent

On June 9, 2011, the Company's wholly owned Hungarian subsidiary, TXM, entered into a Letter of Intent ("**LOI**") with Naftna Industrija Srbije, j.s.c. Novi Sad ("**NIS**") for the earning by NIS of an interest in producing the Algyö play within the Makó Production License in Hungary in an area of approximately 995 square kilometers, from a depth of 2,300m down to the base of the Algyö Formation (the "**Agreement Area**"). Under the terms of the LOI, TXM will retain all rights within the entire Production License deeper than the base of the Algyö Formation such as the Szolnok and Endröd formations and, upon signing of a participation agreement, NIS would be required to make a $1,500,000 payment to TXM. NIS shall then, at its sole cost, drill, test and complete three wells in the Agreement Area. These wells, to be drilled and tested before December 31, 2012, shall be located such that each well tests an independent Algyö prospect. NIS will earn a 50% interest in production from each prospect if the discovery well is tied in and placed on production at the sole cost of NIS. After the drilling of the three wells is completed, NIS has the right to acquire a 50% interest in production from the entire Agreement Area by paying TXM an additional $2,750,000 (the "**NIS earn-in**"). If NIS does not fulfill their drilling obligations under the participation agreement, TXM will retain 100 percent interest in the Agreement Area.

If the NIS earn-in is completed, NIS and TXM will share future exploration, appraisal and development costs and production in the Agreement Area in accordance with their participating interests held under a joint operating agreement. TXM shall be the Operator under both the participation agreement and the joint operating agreement. Discussions on this agreement are ongoing.

The existing well bores in the Makó Trough are currently under review for potential re-entry and re-completion to test the deeper play in the Szolnok, Endrőd or Basal Conglomerate formations.

Karoo Basin, South Africa

On October 27, 2009, the Company secured a Technical Cooperation Permit (the "**TCP**") to evaluate the Karoo Basin in central South Africa. The Company had up to one year to conduct a technical appraisal of the area covered by the TCP, which does not include any well or seismic work obligations. Falcon's application for an exploration permit covering the TCP was accepted on September 7, 2010. Falcon has not yet been awarded the exploration permit due to a moratorium in South Africa while the government reviews its policy and regulations regarding fracture stimulated wells. Falcon's exploration application does not include any well drilling or fracture stimulation in the first 3 year exploration period and is limited to geophysical data acquisition and the study of drilling opportunities and environmental impact. Upon receipt of an approved exploration permit, the Company will be required to make a payment of one South African Rand per hectare (a total of approximately $400,000), and obtain an approved work program. An additional payment will be required as a contribution to a South African government sponsored training program in the same amount required to obtain the exploration license. The TCP covers approximately 7.5 million acres and is located approximately 120 miles northeast of Cape Town, South Africa.

Canada

Falcon owns non-operating working interests in three producing and one recently shut-in natural gas wells in Alberta, Canada which do not comprise a material portion of Falcon's assets (the "**Hackett Interest**"). The Company does not anticipate any further exploration or development of the Hackett Interest.

SELECTED ANNUAL INFORMATION

	2011	2010	2009[1]
For the year ended December 31:			
Revenues	$ 33,000	$ 28,000	$ 69,000
Net loss	(34,827,000)	(150,784,000)	(63,928,000)
Loss per share	(0.05)	(0.25)	(0.11)
Cash dividend per share	Nil	Nil	Nil
As of December 31:			
Total assets	94,901,000	115,409,000	242,999,000
Long-term liabilities	17,937,000	11,604,000	10,137,000

[1] Represented under Canadian Generally Accepted Accounting Principles.

RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2011 and 2010.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year Ended December 31, 2011 as Compared to the Year Ended December 31, 2010

The Company reported a net loss of $34,827,000 for 2011 as compared to a net loss of $150,784,000 for 2010. Changes between the 2011 and 2010 year were as follows:

	Year Ended December 31,		Change	
	2011	2010	$	%
Revenue:				
Oil and natural gas revenue	$ 33,000	$ 28,000	$ 5,000	17.9%
Expenses:				
Accounting	876,000	914,000	38,000	4.2%
Consulting	1,108,000	1,122,000	14,000	1.2%
Director fees	199,000	215,000	16,000	7.4%
Investor relations	125,000	269,000	144,000	53.5%
Legal costs	713,000	1,057,000	344,000	32.5%
Office and administrative	1,559,000	2,092,000	533,000	25.5%
Payroll and related costs	2,336,000	2,135,000	(201,000)	(9.4)%
Travel and promotion	787,000	1,461,000	674,000	46.1%
Joint venture marketing	–	2,058,000	2,058,000	
Total general and administrative	7,703,000	11,323,000	3,620,000	32.0%
Share based compensation	2,435,000	3,516,000	1,081,000	30.7%
Exploration and evaluation expenses	1,629,000	1,602,000	(27,000)	(1.7)%
Production and operating expenses	34,000	26,000	(8,000)	(30.8)%
Depletion and depreciation	368,000	434,000	66,000	15.2%
Impairment of assets	26,035,000	122,111,000	96,076,000	78.7%
Writedown of inventory available for sale	641,000	1,186,000	545,000	46.0%
Write off of receivable	–	4,345,000	4,345,000	
(Reversal of) litigation expense	(1,533,000)	3,700,000	5,233,000	141.4%
Other (income) expense	(543,000)	386,000	929,000	240.7%
	36,769,000	148,629,000	111,860,000	75.3%
Finance income (expense):				
Interest income on bank deposits	83,000	45,000	38,000	84.4%
Derivative gains – unrealized	4,946,000	692,000	4,254,000	614.7%
Interest on loans and borrowings	(2,429,000)	(1,830,000)	(599,000)	(32.7)%
Accretion of provisions	(267,000)	(248,000)	(19,000)	(7.7)%
Net foreign exchange loss	(424,000)	(842,000)	418,000	49.6%
	1,909,000	(2,183,000)	4,092,000	187.4%
Net loss and comprehensive loss	$ (34,827,000)	$ (150,784,000)	$115,957,000	76.9%
Net loss and comprehensive loss attributable to:				
Common shareholders	$ (34,561,000)	$ (150,247,000)	$115,686,000	77.0%
Non-controlling interest	(266,000)	(537,000)	271,000	50.5%
Net loss and comprehensive loss	$ (34,827,000)	$ (150,784,000)	$115,957,000	76.9%

Oil and Natural Gas Revenue

Oil and natural gas revenue of $33,000 ($28,000-2010) includes sale of natural gas from the Hackett Interests in Canada of $31,000 in 2011 ($24,000 – 2010) and $2,000 in 2011 ($4,000-2010) for production from the exploratory wells in Hungary. The Company has not yet realized revenue from its planned operations, and has incurred significant expenditures in connection with its exploration for oil and natural gas.

Expenses

General and administrative costs decreased $3,620,000 to $7,703,000 in 2011 from $11,323,000 in 2010. The significant components of changes in general and administrative expenses in 2011 as compared to 2010 were as follows:

- Accounting – the decrease was attributable to additional costs in 2010 to obtain an independent valuation of the Hungarian Production License and Exploration License, and additional costs associated with planning for the implementation of International Financial Reporting Standards.

- Consulting – the decrease was attributable to a decrease in the use of outside consultants, net of a one-time bonus to consultants for continued services and performance. Investor relations – the decrease of $144,000 from 2010 to 2011 was attributable to the reduction in the use of investor relations consulting firms.

- Legal costs – the decrease was attributable to the reduction in utilization of external counsel, primarily in Canada and Hungary, and through elimination of internal counsel. Legal costs associated with the Company's joint venture and property matters were capitalized to the respective asset base.

- Office and administrative – the decrease of $533,000 from 2010 to 2011 was attributable to a decrease in occupancy costs in Hungary due to the relocation of the Budapest office, and an overall reduction in operating overhead costs.

- Payroll and related costs – the increase was due to a one-time bonus to employees for continued services and performance and the addition of investor relations personnel. During 2010, the Company instituted a reduction to the number of personnel and a temporary reduction to compensation for the retained personnel.

- Travel and promotion – the decrease from 2010 was attributable to a decrease in joint venture related marketing efforts and an overall decrease in non-essential travel by corporate personnel..

- Joint venture marketing – costs incurred solely in 2010 were attributable to the Company's efforts to identify and secure a joint venture partner for its Beetaloo Basin Project, which resulted in the E&P Agreement with Hess.

- Stock based compensation (calculated utilizing the Black–Scholes option-pricing model) – the decrease was attributable to a reduction in the remaining compensation of options granted in prior years to be amortized, and a reduction in the compensation of options granted during the current year to be amortized.

  During 2011, the Company granted officers, directors, employees and consultants of the Company options to purchase 17,810,000 Common Shares at an exercise price of $0.15 (CDN$0.145). The options vest 33.3% at the date of grant, and 33.3% annually thereafter, and expire in May to June 2016.

  During 2010, the Company granted officers, directors, employees and consultants of the Company options to purchase 5,725,000 Common Shares at an exercise price of $0.15 (CDN$0.15) to $0.16 (CDN$0.17). The options vest 33.3% at the date of grant, and 33.3% annually thereafter, and expire in August to December 2015. On August 3, 2010 and November 10, 2010, the Company agreed to issue 1,000,000 and 4,000,000 shares of common stock, respectively, to two past officers valued at $168,000 and $480,000 respectively, that is reflected in stock based compensation.

Impairment of assets

As at December 31, 2011, the Company determined that the carrying value of the Hungarian exploration and evaluation assets and the Canadian natural gas interests exceeded their estimated fair value. Consequently, in 2011, the Company reflected an impairment of Hungarian exploration and evaluation assets of $26,000,000 and an impairment of the Canadian natural gas properties of $35,000.

During 2010, the Company determined that the carrying value of the Hungarian exploration and evaluation assets exceeded its estimated recoverable amount, and reflected an impairment of $122,111,000 for 2010.

Write off of receivable

Associated with its property in Hungary, in 2010 the Company reflected a charge to the consolidated statement of operations costs of $4,345,000 resulting from the Production Development Agreement.

(Reversal of) litigation expense

As at December 31, 2010, the Company was a party to certain legal matters that it determined an appropriate estimate of the potential liability should be recorded should the Company not prevail. The December 31, 2010 financial statements included an obligation of $3,700,000 with a corresponding charge to litigation expense, including interest and fees, related to this claim. In July 2011, the Company entered into a settlement agreement resulting in a decrease in the legal provision of $1,533,000 (see *Legal Matters* below).

Writedown of inventory available for sale

Inventory available for sale consists of drill pipe, casing and tubing. During the year ended December 31, 2011, the Company acquired inventory of nil (2010 – $65,000), received $409,000 (2010 – $1,397,000) from the sale of inventory available for sale and charged to operations $641,000 (2010 – $1,186,000) as a write down to the carrying cost of the inventory to estimated net realizable value of $628,000 (2010 – $1,678,000) (26% (2010 – 28%) of the original cost basis).

Finance income (expense)

- Interest income on bank deposits – the increase was attributable to an increase in the cash available for investment from 2011 equity offerings.

- Derivative gains – unrealized – During the year ended December 31, 2011, unrealized derivative gains of $4,947,000 included the changes in fair value of the embedded derivative of the private placement warrants of $3,889,000, the Hess warrants of $324,000 and the convertible debenture conversion feature of $734,000. During the year ended December 31, 2010, unrealized derivative gains of $692,000 included the changes in fair value of the embedded derivative of the convertible debenture conversion feature of $646,000 and certain agent warrants that expired of $46,000.

- Interest on loans and borrowings – is attributable to the Company's convertible debentures, and includes amortization under the effective interest method of (i) statutory interest, (ii) deferred financing costs and (iii) the value ascribed at the date of the financing to the convertible debenture conversion feature. During 2011 and 2010, there was no capitalization of interest.

- Net foreign exchange loss – during 2011, the loss on foreign exchange was primarily due to a decline in the value of the Company's Canadian dollar cash accounts subsequent to the completion of the April 11, 2011 private placement (see *Falcon Private Placement* below). During 2010, the loss on foreign exchange was primarily due to the payment of obligations for operating activities in Hungary during a period when the value of the Hungarian forint was increasing relative to the US dollar.

  With the exception of the Falcon Australia private placement, which was in US dollars, the Company's financings have been in Canadian dollars; the Company's 2011 exploration and evaluation activities were conducted primarily in Australia and resulted in a reduction to the cash denominated in Australian dollars. The composition of the Company's cash balances as at December 31, 2011 was as follows: 59% (54% – 2010) in US dollars, 37% (9% – 2010) in Canadian dollars, 2% (9% – 2010) in Hungarian forints, nil (nil – 2010) in Euros and 2% (28% – 2010) in Australian dollars; a significant portion of the Company's operations are in Australian dollars and Hungarian forints.

Net loss attributable to non-controlling interest

- Net loss attributable to non-controlling interest – the amount reflected in 2011 and 2010 represents the share of Falcon Australia losses attributable to shareholders other than Falcon.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended December 31, 2011 as Compared to the Three Months Ended December 31, 2010

The Company reported a net loss of $29,361,000 for the three months ended December 31, 2011 as compared to a net loss of $80,022,000 for corresponding period of 2010. Changes between the 2011 and 2010 were as follows:

	Three Months Ended December 31,		Change	
	2011	2010	$	%
Revenue:				
Oil and natural gas revenue	$ 9,000	$ 4,000	$ 5,000	125.0%
Expenses:				
Exploration and evaluation expenses	691,000	323,000	(368,000)	(113.9)%
Production and operating expenses	9,000	12,000	3,000	25.0%
Depletion and depreciation	61,000	115,000	54,000	47.0%
Impairment of assets	26,035,000	76,836,000	50,801,000	66.1%
General and administrative	1,729,000	2,462,000	733,000	29.8%
Share based compensation	441,000	598,000	157,000	26.3.%
Writedown of inventory available for sale	641,000	219,000	(422,000)	(192.7)%
(Reversal of) litigation expense	121,000	(1,041,000)	(1,162,000)	(111.6)%
Other (income) expense	(183,000)	(59,000)	124,000	210.2%
Finance income	(942,000)	(160,000)	782,000	488.8%
Finance expense	767,000	721,000	(46,000)	(6.4)%
	29,370,000	80,026,000	50,656,000	63.3%
Net loss and comprehensive loss	$ (29,361,000)	$ (80,022,000)	$ 50,661,000	63.3%
Net loss and comprehensive loss attributable to:				
Common shareholders	$ (29,308,000)	$ (79,951,000)	$ 50,643,000	63.3%
Non-controlling interest	(53,000)	(71,000)	18,000	25.4%
Net loss and comprehensive loss	$ (29,361,000)	$ (80,022,000)	$ 50,661,000	63.3.%

Exploration and evaluation expenses

Exploration and evaluation expenses increased by $368,000 from $323,000 in 2010 to $691,000 in 2011. Expenses related to Hungarian properties included function and integrity testing of the Makó 7 well and required maintenance activities to safeguard the wells while the Company pursues a joint venture partner. South Africa expenses were legal, environmental and application expenses incurred for the Company's filing for the application for an exploration permit in the Karoo Basin.

Impairment of exploration and evaluation costs

As at December 31, 2011, the Company determined that the carrying value of the Hungarian exploration and evaluation assets and the Canadian natural gas interests exceeded their estimated fair value. Consequently, in the fourth quarter of 2011, the Company reflected an impairment of Hungarian exploration and evaluation assets of $26,000,000 and an impairment of the Canadian natural gas properties of $35,000.

During 2010, the Company determined that the carrying value of the Hungarian exploration and evaluation assets exceeded its estimated recoverable amount, and reflected an impairment of $76,836,000 in the fourth quarter of 2010.

General and administrative expenses

General and administrative expenses decreased by $733,000 from $2,462,000 in 2010 to $1,729,000 in 2011. The decrease is predominately due to a reduction in accounting of $92,000, consulting of $202,000, legal of $359,000 and joint venture marketing of $72,000.

Write-down of inventory available for sale

As at December 31, 2011, the Company determined that the carrying value of its inventory available for sale exceeded its net realizable value and, consequently, charged to fourth quarter operations $641,000 ($219,000 – 2010) as a write down of inventory for sale with a corresponding reduction to inventory available for sale.

(Reversal of) litigation expense

As at September 30, 2010, the Company was a party to certain legal matters that it determined an appropriate estimate of the potential liability should be recorded should the Company not prevail. Accordingly, the September 30, 2010 financial statements included an obligation of $4,741,000 with a corresponding charge to litigation expense, including interest and fees, related to this claim. As at December 31, 2010, the estimate was reduced to $3,700,000 and, during the fourth quarter of 2010, reflected a reversal of litigation expense of $1,041,000. As at September 30, 2011, the obligation was reduced by $1,654,000 to $2,046,000; during the fourth quarter of 2011, the Company incurred $121,000 of additional costs in connection with the settlement (see *Legal Matters* below).

Finance income

During the three months ended December 31, 2011, finance income included the changes in fair value of the embedded derivative of the private placement warrants, the Hess warrants and the convertible debenture conversion feature in the aggregate amount of $914,000, interest income of $21,000 and gain from foreign currency exchange of $7,000. During the corresponding three months of 2010, finance income included the change in the fair value of the embedded derivative of the convertible debenture and agents warrants of an aggregate $154,000, and interest income of $6,000.

Finance expenses

During the three months ended December 31, 2011, finance expense included the effective interest on convertible debentures of $706,000 and accretion of decommissioning liability of $61,000. During the corresponding three months of 2010, the effective interest, loss from foreign currency exchange and accretion of decommissioning liability were $517,000, 160,000 and $44,000, respectively.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of the eight most recently completed quarters:

As of:	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
Total assets	$114,227,000	$126,256,000	$124,287,000	$94,901,000
Exploration and evaluation assets	99,755,000	82,665,000	91,437,000	70,977,000
Working capital	2,260,000	33,167,000	21,519,000	13,983,000
Total shareholders' equity	84,355,000	90,700,000	90,592,000	61,822,000
For the three months ended:	**March 31, 2011**	**June 30, 2011**	**September 30, 2011**	**December 31, 2011**
Revenue	8,000	9,000	7,000	9,000
Net income (loss)	(2,900,000)	(1,708,000)	(645,000)	(29,308,000)
Net income (loss) per share-basic and diluted	(.005)	(.002)	(.001)	(0.044)

As of:	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Total assets	$239,384,000	$248,149,000	$194,402,000	$115,409,000
Exploration and evaluation assets	208,071,000	220,135,000	175,121,000	98,755,000
Working capital	13,715,000	14,125,000	5,711,000	4,848,000
Total shareholders' equity	225,569,000	223,957,000	165,432,000	86,812,000
For the three months ended:	**March 31, 2010**	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**
Revenue	12,000	nil	12,000	4,000
Net income (loss)	(5,740,000)	(6,056,000)	(58,966,000)	(80,022,000)
Net income (loss) per share-basic and diluted	(0.010)	(0.009)	(0.100)	(0.133)

The Company is a development stage company, and has limited revenue which is not material. The Company's net loss and net loss per share relate to the Company's operations during a particular period, and are not seasonal in nature. Generally, the Company's total assets, exploration and evaluation costs, working capital and total shareholders' equity fluctuate in proportion to one another until such time as the Company completes additional financing.

LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended December 31, 2011, the Company incurred a net loss of $34,827,000, had operating cash outflows of $12,139,000, and at December 31, 2011 had a deficit of $316,838,000.The Company's ability to continue as a going concern in the short term is dependent upon its ability to raise additional capital from the sale of additional common shares or other debt or equity instruments and/or to secure an industry partner for its operations in Hungary and South Africa. There is no assurance that additional capital will be available to the Company on acceptable terms or at all, or that an industry partner will be secured.

The Company has worked on securing joint venture funding for its operations in the Makó Trough located in Hungary. In 2011, the Company entered into a Letter of Intent with Naftna Industrija Srbije, j.s.c. Novi Sad ("NIS") for the earning of an interest by NIS in producing the Algyö play within Falcon's Makó production license in Hungary as described under Operational Highlights – Hungary above. Discussions on a final agreement are continuing.

In the longer term, the recoverability of the carrying value of the Company's exploration and evaluation 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 acquisition, exploration, development and production activities.

Falcon Australia Joint Venture

In June 2011, Falcon Australia and Hess closed on the E&P Agreement. 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 three of the four Permits, and excluding an area comprising 100,000 acres surrounding the Shenandoah-1 well (the "Area of Interest") and (ii) as consideration for warrants to acquire 10,000,000 common shares in the capital of Falcon exercisable from November 14, 2011 through January 13, 2015 at an exercise price of CDN$0.19 per share (the "Hess Warrants").

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

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

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

Falcon Private Placement

On April 11, 2011, Falcon issued 87,050,000 units (the "**Private Placement Units**") at $0.16 (CDN$0.15) per Private Placement Unit pursuant to a non-brokered private placement for aggregate gross proceeds of CDN$13,058,000. Each Private Placement Unit consists of one common share in the capital of Falcon and three-quarters of one common share purchase warrant (each, a "**Private Placement Warrant**"). Each whole Private Placement Warrant is exercisable into a common share for a period of 36 months from the date of its issuance at an exercise price of $0.19 (CDN$0.18) per share.

Falcon Australia Private Placement

In November 2010, Falcon Australia completed the private placement sale of 6,114,000 shares of its common stock ("**FA Share**") to sophisticated or professional investors within the meaning of sections 708(8) and 708(11) of the Corporations Act 2001 (Australia) pursuant to an Offer Memorandum (the "**Offer**"), at a price of $1.00 per FA Share with an attached option ("**FA Option**"). Each FA Option entitles the holder to acquire one additional FA Share in respect to each FA Share sold, exercisable at $1.25 for a period of three years from date of issue. The acting broker to the Offer received, as a brokerage fee, cash in an amount equal to 6.5% of the funds raised in the Offer together with FA Options at an amount equal to 6.5% of the number of FA Shares issued in the Offer. The proceeds from the Offer were utilized for operations in Australia. Giving effect to the closing of the Offer, Falcon has a 72.7% interest in Falcon Australia

Working Capital

Cash and cash equivalents as at December 31, 2011 were $15,358,000, an increase of $8,084,000 from $7,274,000 as at December 31, 2010. Working capital at December 31, 2011 decreased to $13,983,000 from $4,848,000 at December 31, 2010.

The increase to cash and cash equivalents of $8,084,000 was attributable to cash used in operating activities and the effect of exchange rates on cash of $12,139,000 and $265,000, respectively, offset by cash provided by investing and financing activities of $6,055,000 and $14,433,000, respectively.

Accounts Receivable

Accounts receivable as at December 31, 2011 were $1,602,000, which includes $897,000 receivable from the Hungarian, Australian and Canadian governments as refunds of VAT, GST and GST, respectively, and other of $705,000.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at December 31, 2011 were $3,836,000, and includes $2,299,000 for capital expenditures related primarily to the Shenandoah 1 well testing in Australia, as compared to accounts payable and accrued expenses of $1,871,000 as at December 31, 2010, which included $99,000 for capital expenditures related primarily to the Company's Hungarian and Australian operations.

Capital Expenditures

For the year ended December 31, 2011, capitalized additions to exploration and evaluation assets were $17,831,000, of which $15,572,000 was in Australia and $2,259,000 was in Hungary. During 2011, cash payments on all exploration and evaluation assets were $13,397,000, of which $99,000 represented amounts incurred and reflected in accounts payable and accrued expenses as at December 31, 2010.

For the year ended December 31, 2010, capitalized additions to exploration and evaluation assets were $13,074,000, of which $12,944,000 was in Australia (including $11,725,000 of non-cash charges for the acquisition of the remaining 25% working interest in the Beetaloo Basin Project by Falcon Australia), and $130,000 was in Hungary. During 2010, cash payments on all exploration and evaluation assets were $1,442,000, of which $242,000 represented amounts incurred and reflected in accounts payable and accrued expenses as at December 31, 2009.

Australia

During 2011, costs incurred in Australia were primarily for the testing and stimulation of the Shenandoah-1 well and for geological and geophysical analysis, engineering and analytical evaluations, and working with the Northern Land Council and Aboriginal Area Protection Agency for site clearances and necessary environmental studies.

Under a revised work program approved by the Northern Territory of Australia Government, Department of Resources on July 6, 2011 for Permits EP 76, EP 98, and EP 117, the minimum work program obligations, in order to continue to hold the underlying Permits (including EP 99) in the Beetaloo Basin, require the Company spend $18,152,000 during the year ending December 31, 2012, of which $16,626,000 will be for the acquisition of seismic to be borne by Hess under the E&P Agreement.

The Company's capital requirements for 2013 and beyond will be dependent upon the evaluation of the results of the 2012 work program.

Hungary

As at December 31, 2011, the Company's net cumulative expenditures for the Production License and Exploration Licenses, including the acquisition, seismic testing, drilling of exploratory wells, and initial testing and completion of wells, was approximately $242,022,000**,** including an asset retirement obligation of approximately $7,709,000. The net increase for 2011 included a revision of $2,387,000 to the decommissioning provision for the seven existing well bores.

The Company's future capital requirements for Hungary will be dependent upon, among other things, the evaluation of the Hungarian properties and ability to obtain a joint venture partner. The Company continues to evaluate the potential for further activity in the Makó Trough in the Production License. The Company's requirements for additional capital are dependent upon its future operating plans.

Debt and Equity Capital

The availability of debt and equity capital, and the price at which additional capital could be issued will be dependent upon the success of the Company's exploration activities, and upon the state of the capital markets generally.

Legal Matters

The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.

On November 10, 2009, as amended on March 16, 2011, the Company was served with a Complaint by a former vendor (**the "Vendor"**) of TXM arising out of a dispute related to TXM's alleged failure to pay for certain oilfield equipment. On July 29, 2011, TXM and the Vendor entered into a settlement agreement. The costs to settle this matter were $2,167,000, including all fees and costs related to the claim.

Transactions with Non-Arm's Length Parties and Related Parties

Services – Directors and Officers

During 2011, the Company incurred expenses in the amount of $231,000 (2010 – $128,000) to a current director of the Company, Dr. György Szabó, for advisory and consulting services rendered to TXM.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at December 31, 2011 and April 30, 2012:

Class Of Securities	December 31, 2011	April 30, 2012
Common Shares	695,654,500	695,654,500
Stock Options (3)	29,764,500	29,764,500
Private Placement Warrants(1)	65,287,500	65,287,500
Hess Warrants(2)	10,000,000	10,000,000

Notes:

(1) Warrants to purchase 65,287,500 Common Shares at a price of $0.19 (CDN$0.19) per Common Share were issued to shareholders on April 11, 2011 in connection with the Falcon Private Placement discussed above, and expire on April 11, 2014.
(2) Warrants to purchase 10,000,000 Common Shares at a price of $0.19 (CDN$0.19) per Common Share were issued to Hess on July 13, 2011 in connection with the Hess transaction discussed above. The Hess Warrants are exercisable commencing on November 14, 2011, and expire on January 13, 2015.
(3) The Company has agreed to issue 6,000,000 options, effective May 1, 2012, to its newly appointed Chief Executive Officer.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company does not have any off-balance sheet arrangements or proposed transactions, other than operating leases.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are discloses in Note 3 to the December 31, 2011 consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company continuously refines its management and reporting systems to ensure that accurate, timely and useful information is gathered and disseminated. The Company's financial and operating results incorporate certain estimates including the following:

- Exploration and evaluation costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the assets acquired, except for costs incurred in relation to projects for which exploration and evaluation activities have been temporarily suspended. The costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability. No costs are charged to a cost center when operations in that cost center are suspended for more than 12 months. Accounting for oil and natural gas operations requires management's judgement to determine the proper designation of wells as either developmental or exploratory which will ultimately determine the proper accounting treatment of the costs incurred. The results of a drilling operation can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgement and application of industry experience. The evaluation of oil and natural gas leasehold acquisition costs requires management's judgement to evaluate the fair value of land in a given area.

- Estimated future recovery of exploration and evaluation assets and property, plant and equipment and any related impairment charges or recoveries are assessed for impairment when circumstances suggest the carrying value may exceed its recoverable amount. The recoverable amount calculation requires the use of estimates which are subject to change as new information becomes available. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets.

- Decommissioning obligations are based on assumptions which take into consideration current economic factors and experience to date which we believe is reasonable. The actual cost of the Company's decommissioning obligations may change in response to numerous factors.

- The Company uses estimates to allocate the debenture proceeds from the convertible debenture issuance between debt and the derivative debenture liability or equity components, as appropriate. Fair value of share options are calculated utilizing the Black Scholes option pricing model and involve assumptions such as volatility, expected option life and expected dividend yield.

NEW ACCOUNTING PRONOUNCEMENTS

Several new standards and amendments to existing standards and interpretations, which have been issued by the International Accounting Standards Board ("IASB"), and which are expected to be relevant to the Company are not yet effective and have not been applied in preparing these financial statements. The Company is currently assessing the expected impact, if any, that the adoption of these standards will have on its financial statements, and does not expect adoption of these new standards and interpretations to have a material impact on the financial statements.

BUSINESS RISKS AND UNCERTAINTIES

As stated above and as discussed in the Company's continuous disclosure documents, certain risks and uncertainties that could cause the Company's actual results to materially differ from our current expectations include, but are not limited to:

- The Company's business is at a similar stage to that of a recently formed company with no operating history, which makes it difficult to evaluate its business prospects;
- The Company cannot be certain that it will continuously meet all requirements to maintain the Production License;
- The Company cannot be certain that current expected expenditures and completion/testing programs will be realized;
- The Company will have substantial capital requirements that, if not met, may hinder its growth and operations;
- The Company might not be able to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them, which could cause the Company to incur losses;

- The Company might incur debt in order to fund its exploration and development activities, which would continue to reduce its financial flexibility and could have a material adverse effect on the Company's business, financial condition or results of operation;
- Shortages of rigs, equipment, supplies and personnel could delay or otherwise adversely affect the Company's cost of operations or its ability to operate according to its business plans;
- Resource estimates depend on many assumptions that may turn out to be inconclusive, subject to varying interpretations, or inaccurate;
- The value of the Common Shares might be affected by matters not related to the Company's own operating performance for reasons that include the following:
    - general economic conditions in Australia, Canada, Hungary, the United States and globally;
    - industry conditions, including fluctuations in the price of petroleum and natural gas;
    - governmental regulation of the petroleum and natural gas industry, including environmental regulation;
    - fluctuation in foreign exchange or interest rates;
    - liabilities inherent in petroleum and natural gas operations;
    - geological, technical, drilling and processing problems;
    - unanticipated operating events which can reduce production or cause production to be shut-in or delayed;
    - failure to obtain third party consents and approvals, when required;
    - stock market volatility and market valuations;
    - competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
    - the need to obtain required approvals from regulatory authorities;
    - Hungarian and worldwide supplies and prices of and demand for petroleum and natural gas;
    - political conditions and developments in Hungary and Australia;
    - political conditions in petroleum and natural gas producing regions;
    - revenue and operating results failing to meet expectations in any particular period;
    - investor perception of the petroleum and natural gas industry;
    - limited trading volume of Common Shares;
    - change in environmental and other governmental regulations;
    - announcements relating to the Company's business or the business of its competitors;
    - the Company's liquidity; and
    - the Company's ability to raise additional funds.

- The Company might not be able to obtain necessary approvals from one or more Hungarian and/or Australian government agencies, surface owners, or other third parties;
- Drilling for and producing petroleum and natural gas are high-risk activities with many uncertainties that could adversely affect the Company's business, financial condition or results of operations;
- Competition in the petroleum and natural gas industry is intense, and many of the Company's competitors have greater financial, technological and other resources than the Company does, which may adversely affect its ability to compete;
- Political instability or fundamental changes in the leadership or in the structure of the governments in the jurisdictions in which the Company operates could have a material negative impact on the Company;
- Market conditions or operation impediments may hinder the Company's access to petroleum and natural gas markets or delay its production;
- A substantial or extended decline in petroleum and natural gas prices may adversely affect the Company's ability to meet its capital expenditure obligations and financial commitments;
- The Company may enter into currency hedging agreements but may not be able to hedge against all such risks;
- The Company is subject to complex laws and regulations, including environmental regulations, which can have a material adverse effect on the cost, manner or feasibility of doing business;
- The loss of the Company's chief executive officer or other of the Company's key management and technical personnel or its inability to attract and retain experienced technical personnel could adversely affect the Company's ability to operate;
- The Company does not insure against all potential operating risks. It might incur substantial losses and be subject to substantial liability claims of its petroleum and natural gas operations; and
- To the extent that the Company establishes petroleum and natural gas reserves, it will be required to replace, maintain or expand its petroleum and natural gas reserves in order to prevent its reserves and production from declining, which would adversely affect cash flows and income.

Should one or more of these risks materialize, or should the Company's underlying assumptions prove incorrect, the Company's actual results may materially differ from the Company's current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause the Company's actual results to materially differ from such forward-looking statements.

MANAGEMENT'S RESPONSIBILITY FOR MD&A

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

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