



# **FALCON OIL & GAS LTD.**

**ANNUAL INFORMATION FORM**

**For the Fiscal Year Ended**

**December 31, 2011**

*April 30, 2012*

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## Interpretation

Where used herein, a reference to “**Company**” or “**its**” and other similar such words refers to Falcon Oil & Gas Ltd. together with its directly and indirectly wholly-owned subsidiaries listed under “*Corporate Structure*”. References to “**Falcon**” refer to Falcon Oil & Gas Ltd., only.

All financial information in this Annual Information Form has been prepared in accordance with generally accepted accounting principles in Canada. Unless otherwise stated, all dollar amounts herein are in dollars of the United States of America (“**US**”).

Unless otherwise noted, the information given herein is as at December 31, 2011.

## Forward-Looking Statements

This Annual Information Form and the documents incorporated by reference herein contain estimates and assumptions that management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may be identified by use of forward-looking words, such as “expects” include words such as “estimates”, “plans”, “anticipates”, “believes”, “opinions”, “forecasts”, “projections”, “guidance”, “may”, “could”, “will”, “potential”, “intend”, “should”, “predict” or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The Company’s forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Readers of this Annual Information Form and the documents incorporated by reference herein are cautioned not to rely on these forward-looking statements. Falcon is providing this information as of the date of this Annual Information Form and as at the date noted on the documents incorporated by reference herein, respectively, and does not undertake any obligation to update any forward-looking statements contained herein or therein, respectively, as a result of new information, future events or otherwise.

## Documents Incorporated by Reference

The following documents, referenced herein, have been previously filed on the Canadian Securities Administrator’s System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and are incorporated by reference herein:

1. RPS Scotia, Inc.’s (“**RPS Scotia**”) updated resource estimate of the Makó Trough (described below), dated May 2, 2008 and effective March 31, 2008 (the “**RPS Scotia Report**”).
2. The Ryder Scott Company-Canada Resource Report, dated May 3 2010, on the Beetaloo Basin Project in the Northern Territory (NT), Australia (the “**Beetaloo Basin Project**”) entitled “Falcon Oil & Gas Ltd. Evaluation of the Unconventional Oil Resource Potential Pertaining to Certain Acreage Interests in the Beetaloo Basin Northern Territory, Australia as of May 1, 2010” (the “**Beetaloo Report**”).
3. Statement of Reserves Data and Other Oil and Gas Information with an effective date of December 31, 2011 (the “**51-101F1 Report**”).
4. Report on Reserves Data by prepared by Chapman Petroleum Engineering Ltd. (“**Chapman**”) dated February 22, 2012 (the “**51-101F2 Report**”).

5. Report of Management and Directors on Reserves Data and Other Information dated April 30, 2012 (the “**51-101F3 Report**”).

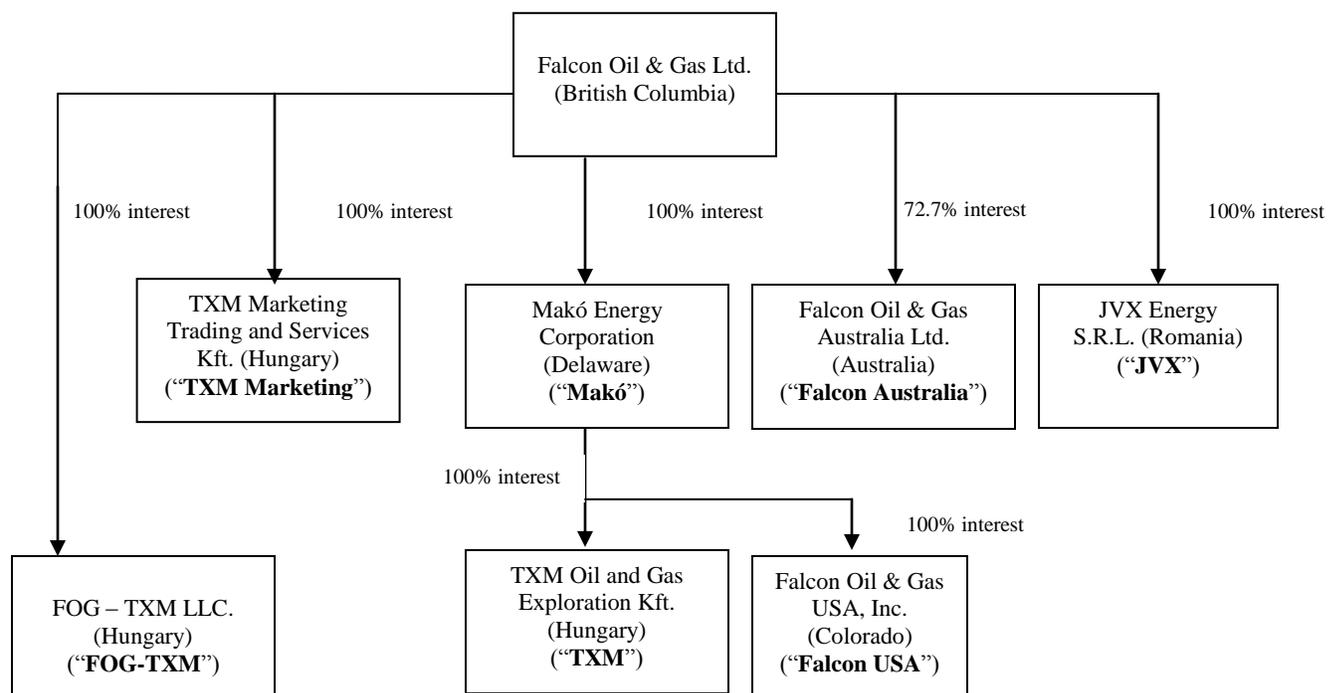
### CORPORATE STRUCTURE

Falcon was incorporated on January 18, 1980, pursuant to the laws of the Province of British Columbia by the registration of memorandum and articles with the British Columbia Registrar of Companies under the name Sanfred Resources Ltd. (“**Sanfred**”). On December 21, 1999, Sanfred consolidated its authorized and issued share capital and changed its name to Falcon Oil & Gas Ltd. On March 2, 2005, Falcon’s transition application under the new *Business Corporations Act* (British Columbia) (“**BCABC**”) was filed and accepted.

The Company’s head office is located at 999 18<sup>th</sup> Street, Suite 1100, Denver, Colorado 80202 and its registered office is located at 810-875 Hastings Street West, British Columbia V6B 1N2.

### Organizational Structure

The following chart depicts the organization of the Company as at the date hereof, including its material subsidiaries:



Makó was incorporated under the laws of the State of Delaware on November 8, 2004 for the purpose of acquiring, exploring, and developing oil and gas properties. TXM was formed in 2004 to conduct oil and gas exploration and development business in the Republic of Hungary (“**Hungary**”), except for ownership of the Company’s gathering infrastructure/assets, and marketing of oil and gas produced from TXM’s licenses. TXM Marketing was formed in March, 2007 to hold the Company’s gathering infrastructure/assets in Hungary, and to market the oil and gas produced from TXM’s licenses. JVX was formed in 2005 to conduct the Company’s business in Romania and is presently being dissolved. FOG-TXM was incorporated in April 2008 to assist in the structure of the Company’s joint venture with Exxon Mobil Corporation’s affiliate Esso Exploration International Limited (“**ExxonMobil**”) and is presently being dissolved. Falcon USA was formed in August, 2008 to hold the Company’s working interest in the Buckskin Mesa Project located in the Piceance Basin, Colorado (the “**Buckskin Mesa Project**”). Falcon

Australia was formed in August, 2008 to hold the Company's working interest in certain properties in the Beetaloo Basin located in Northern Territory, Commonwealth of Australia ("**Australia**"). For further details on these properties see "*Business Description*".

All shares issued by subsidiaries are common voting shares.

## **GENERAL DEVELOPMENT OF THE BUSINESS OF FALCON**

### **Development of the Business During 2012**

In April 2012, Falcon announced the appointment of Mr. Philip O'Quigley to assume the role of Chief Executive Officer. Mr. Robert Macaulay will remain on the board while assisting with the transition of CEO responsibilities to Mr. O'Quigley.

### **Development of the Business During 2011**

On April 11, 2011, Falcon issued 87,050,000 units (the "**2011 PP Units**") at \$0.16 (CDN\$0.15) per 2011 PP Unit by way of a non-brokered private placement (the "**2011 PP**") for aggregate gross proceeds of CDN\$13,058,000. Each 2011 PP Unit consisted of one common share in the capital of Falcon (each a "**Common Share**") and three-quarters of one Common Share purchase warrant (each, a "**2011 PP Warrant**"), each whole 2011 PP Warrant being exercisable into one Common Share for a period of 36 months from the date of its issuance at an exercise price of CDN\$0.18 per Common Share. A finders' fee of \$149,100 was paid to a non-related entity.

On April 28, 2011, Falcon Australia entered the Evaluation and Participation Agreement (the "**E&P Agreement**") with Hess Australia (Beetaloo) Pty Ltd. ("**Hess**"). On June 28, 2011 upon fulfillment of all the conditions precedent to the E&P Agreement, the transaction with Hess closed. Upon closing, 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 (the "**Hess Warrants**") to acquire 10,000,000 common shares in the capital of Falcon at an exercise price of CDN\$0.19 per share. The Hess Warrants are exercisable commencing on November 14, 2011, and expire on January 13, 2015.

Additionally, Hess 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.

On May 23, 2011 Falcon granted incentive stock options to purchase an aggregate of 17,660,000 Common Shares to a number of recipients including directors, officers, employees and consultants. The terms of the options include an exercise price of CDN\$0.145 per share, a vesting schedule allowing for 1/3 of the options to vest immediately with an additional 1/3 vesting each subsequent year until the options are fully vested on May 23, 2013, and an expiry date of the options of May 23, 2016.

On June 9, 2011 Falcon announced that TXM entered into a letter of intent (the "**LOI**") with Naftna Industrija Srbije, j.s.c. Novi Sad ("**NIS**"), for the acquisition by NIS of a producing interest in the Algyö play within Falcon's Makó production licence in Hungary in an area of approximately 995 square kilometres from a depth of 2,300 m down to the base of the Algyo formation (the "**Agreement Area**"). Under the terms of the agreement, TXM retained all rights within the entire production licence deeper than the base of the Algyö Formation such as the Szolnok and Endröd formations and NIS would make a US\$1.5 million payment to TXM upon signing of a participation agreement. NIS will, at its own expense

drill, test and complete three wells in the Agreement Area which are to be drilled and tested before December 31, 2012. Discussions on this agreement are ongoing.

On September 16, 2011, Falcon's majority owned subsidiary, Falcon Australia commenced operations at the Shenandoah #1 wellsite in the Beetaloo Basin Project. Operations had been delayed due to heavy rainfall and the resultant flooding required the building up of the access road in to the area plus further construction at the wellsite. This allowed a drilling rig to move on to location. Rig-up operations and safety checks were completed and the well was re-entered on September 14, 2011. A total of five intervals were tested; two in the Velkerri shales, two in the Moroak sandstones and one in the Lower Kyalla shales. The full test sequence was concluded around the end of November, 2011.

In September 2011, Mr. John Craven was appointed Chairman of Falcon's board of directors. Former chairman Dr. Szabó continues to serve as a director of Falcon and co-managing director of TXM.

On October 14, 2011, Falcon issued a total of 676,800 Common Shares to employees as a bonus for services. In addition, Falcon completed a private placement for a total of 660,900 Common Shares (the "**October 2011 Private Placement**"). Each Common Share was issued for a subscription price of CDN\$0.15 per Common Share. The full private placement was subscribed for by insiders of Falcon. In relation to the private placement, Falcon relied on exemptions from the formal valuation and minority approval requirements of MI 61-101, as neither Falcon nor, to the knowledge of Falcon, the insiders participating in the private placement had knowledge of any material information concerning Falcon or its securities that had not been generally disclosed, Falcon securities are only listed on the TSX Venture Exchange, and the fair market value of the private placement at the time the transaction was agreed to did not exceed 25% of Falcon's market capitalization.

On November 3, 2011, Falcon announced the resignation of Tom Harris from his position as director. Mr. Harris' position was filled by Andrew James Morris of London, UK.

### **Development of the Business During 2010**

In January 2010, Falcon Australia commenced the marketing of a private placement ("**FA Offering**") of units in the capital of Falcon Australia ("**FA Units**"). Each Unit consisted of one Falcon Australia Share ("**FA Share**") and an option to acquire one additional FA Share (the "**FA Option**") at a price of \$1.00 per Unit. Each FA Option is exercisable, for three years from date of issue, into an additional FA Share at \$1.25 per such FA Share. In June and November 2010, Falcon Australia closed on gross proceeds from the FA Offering of \$4,896,000 and \$1,218,000, respectively, before costs of the FA Offering of \$591,000. The proceeds from the FA Offering are to be utilized for operations in Australia. Giving effect to the closings of the FA Offering, Falcon has a 72.7% interest in Falcon Australia.

On February 19, 2010 Falcon announced that it had received written notice (the "**Notice**") from ExxonMobil and MOL Hungarian Oil & Gas Plc ("**MOL**") stating that neither company will proceed to the next phase outlined in the production and development agreement (the "**PDA**") between Falcon and TXM, and ExxonMobil. As a result of the Notice and in accordance with the PDA all interests held by ExxonMobil and MOL that were the subject of the PDA reverted back to Falcon.

In February 2010, the Company commenced well site construction and service tendering exercises for the 2010 work program for the Shenandoah 1 well at the Beetaloo Basin, Northern Territory, Australia ("**Beetaloo Basin Project**"), with the intentions of commencing drilling and completion activities in July/August 2010. Due to adverse weather conditions, operations were forced to be suspended in 2010. The Company received approval from the Northern Territory Department of Resources to defer its planned operations until 2011.

On April 23, 2010, Falcon Australia received notice (the “**Australia Notice**”) from the Department of Resources, Northern Territory Government, that the registration of the transfer of the remaining 25% interest in the four Permits was completed, and Falcon now holds 100% of the Permits.

In May 2010 the Company received the Beetaloo Report.

In July, 2010, in order to accommodate the Company’s expanding global operations, Hein & Associates LLP, the Company’s audit firm since inception, resigned and KPMG LLP were appointed the Company’s auditors.

In November, 2010 Marc A Bruner resigned from his position as President, CEO and a Director of Falcon and the positions of President and CEO were assumed by Robert C. Macaulay, a director of Falcon.

In November 2010, Falcon Australia completed the private placement sale of 6,114,000 FA Shares 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. Following the closing of the Offer, Falcon has a 72.7% interest in Falcon Australia.

In December, 2010, Igor Akhmerov was re-elected to the Company’s board of directors (the “**Board**”) (previously a member in 2007/2008) at the Company’s annual and special meeting of the shareholders.

### **Development of the Business During 2009**

On February 24, 2009, Falcon announced that it had elected not to exercise its contractual option (the “**Buckskin Option**”) under the Purchase and Sale Agreement between PetroHunter Energy Corporation (“**PetroHunter**”), PetroHunter Operating Company, Falcon and Falcon USA dated August 22, 2008 (the “**Buckskin PSA**”). The Buckskin Option gave the Company a right to acquire a 50% working interest in the Buckskin Mesa Project. In accordance with the Buckskin PSA, the Company reassigned the undivided 25% working interest in five wells located within the Buckskin Mesa Project (the “**Five Wells**”) to PetroHunter and the Company was relieved of all obligations related to the Five Wells, including reclamation and plugging and abandonment obligations.

In May, 2009 Falcon, Falcon Australia and Falcon USA entered into the second Purchase and Sale Agreement (the “**Second Beetaloo PSA**”) with PetroHunter, PetroHunter Operating Company and Sweetpea Petroleum Pty Ltd (“**Sweetpea**”).

On June 11, 2009, pursuant to the Second Beetaloo PSA, the Company completed the acquisition of an additional undivided 25% working interest in the Beetaloo Basin Project. Under the terms of the Second Beetaloo PSA, the principal consideration being paid by the Company for this transaction was the forgiveness of the \$5 million loan to PetroHunter (the “**PetroHunter Loan**”). In addition, the Company agreed to pay certain vendors who had provided goods or services for the Beetaloo Basin Project, prior to the Company acquiring its 50% interest in September 2008, in exchange for inventory and operator bonds of approximately the same value, and has relinquished its right to the unexpended testing and completion funds of the Buckskin Mesa Project. Upon closing, Falcon Australia became operator of the Beetaloo Basin Project, and PetroHunter and the Company entered into an escrow agreement governing the release of all remaining Common Shares previously issued to PetroHunter.

On June 30, 2009, Falcon completed a debenture offering (the “**Debenture Offering**”) issuing 11,910 units (“**Debenture Units**”) at an offering price of CDN\$1,000 per Debenture Unit for gross proceeds of CDN\$11,910,000. The Debenture Units consisted of CDN\$900 worth of 11% convertible unsecured debentures in the principal amount of CDN\$1,000, due June 30, 2013, (“**Debentures**”) and 250 Common Shares (“**Unit Shares**”).

On October 27, 2009, the Company secured a Technical Cooperation Permit (the “**TCP**”) to evaluate the Karoo Basin in central South Africa.

On November 27, 2009, Mr. David Fisher resigned as a member of the Board.

On December 7, 2009, Falcon entered into the Falcon-PetroHunter Agreements. Under the terms of the Falcon-PetroHunter Agreements: (i) Falcon Australia agreed to acquire the remaining 25% interest in the Permits from Sweetpea in consideration for the issuance to Sweetpea of 25% of the issued and outstanding FA Shares; and (ii) the commencement of the FA Offering. Falcon was issued 150 million shares of Falcon Australia for conversion of a portion (\$30,000,000) of Falcon Australia’s debt payable to Falcon, which approximates Falcon’s initial acquisition cost previously paid to Sweetpea for the 75% working interest in the Permits held by Falcon Australia as of the date of the Agreement; and Falcon Australia issued 50 million shares of its common stock to Sweetpea (valued at \$10,000,000) and settled a joint interest billing receivable from Sweetpea of \$1,725,000 for Sweetpea’s remaining 25% working interest in the Permits. On April 23, 2010, Falcon Australia received notice (the “**Notice**”) from the Department of Resources, Northern Territory Government, that the registration of the transfer of the remaining 25% interest in the Permits was completed, satisfying all conditions precedent to closing. Pursuant to the Notice, Falcon Australia now owns 100% of the Permits.

On December 22, 2009, at Falcon’s annual and special general meeting, four new directors were elected to the Board. These four new directors were Robert C. Macaulay, Thomas G. Harris, John Craven and Gregory Smith.

See also “*Business Description*”.

## **BUSINESS DESCRIPTION**

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 18<sup>th</sup> Street, Suite 1100, Denver, Colorado, U.S.A. 80202.

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

### **Summary of Operations**

#### **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%.

In May 2010, the Company received the Beetaloo Report. The Beetaloo Report has been prepared in accordance with the Canadian standards set out in the COGEH and is compliant with National Instrument 51-101 (“**51-101**”) “Standards of Disclosure for Oil and Gas Activities.” A copy of the Beetaloo Report is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *Hess Participation Agreement*

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 on the Area of Interest and (ii) as consideration for the Hess Warrants. The Hess 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.

Additionally, 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.

#### *Operational Highlights for 2011*

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 (thousand standard cubic feet per day), gas gravities ranged from 0.64 to 0.70 and the lower interval also yielded condensate with an API gravity of 43 degrees. Importantly this showed that that these rocks can be stimulated and are over pressured. Both Velkerri intervals will now be considered candidates for future testing, including horizontal drilling with multiple stimulation treatments to establish commerciality.
- 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.

#### *Future Operations*

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.

## **Hungary**

#### *Operational Highlights for 2009-2010*

The Company holds a long-term Mining Plot (the “**Production License**”) granted by the Hungarian Mining Authority in a deep gas exploration project in southeastern Hungary (the “**Makó Trough**” or the “**Hungary Project**”). 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 245,775 acres, gives the Company the exclusive right to explore for petroleum and natural gas on properties located in south central Hungary near the town of Szolnok. 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, TXM, entered into the LOI with NIS for the earning by NIS of an interest in producing the Algyö play within the Makó Production License in Hungary in the Agreement Area of approximately 995 square kilometers, from a depth of 2,300m down to the base of the Algyö Formation. 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.

The Company and NIS are in continuing discussions to finalize the participation agreement.

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, Endröd or Basal Conglomerate formations.

### *Resource Estimates*

The RPS Scotia Report provides resource estimates for the Makó Trough, Hungary has an effective date of March 31, 2008. RPS Scotia is the parent company of the Scotia Group.

The RPS Scotia Report is compliant with NI 51-101. A copy of the RPS Scotia Report is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Future Operations*

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, Endröd or Basal Conglomerate formations.

### **Karoo Basin, South Africa**

On October 27, 2009, the Company secured 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.

### **Employees**

As at December 31, 2011, Falcon, Makó and TXM together employed a total of 19 full-time employees and consultants, of which 10 individuals operated from the Company's headquarter offices in Denver, Colorado and 9 individuals were located in Hungary, supporting administrative operations in Budapest and field operations in Szeged. As at the date hereof, Falcon, Makó and TXM together employed a total of 20 full-time employees and consultants, of which 10 individuals operated from the Company's headquarter offices in Denver, Colorado and 10 individuals were located in Hungary, supporting administrative operations in Budapest and field operations in Szeged. In addition to these employees, the Company also retains consultants and other highly skilled professionals as needed for the Hungary Project and other aspects of its operations. None of the Company's employees are part of a collective bargaining unit. Management believes that its relations with its employees are good.

Falcon Australia engaged two part-time consultants as at December 31, 2011 and two part-time consultants as at the date hereof. Falcon Australia also retains consultants and other highly skilled professionals as needed.

### **Special Skill and Knowledge**

The Company's ability to complete drilling and exploration is dependent on the availability of well-trained, experienced crews to operate its field equipment and qualified management. The Company believes that its strategic arrangement with other oil and gas exploration companies aids the Company in ensuring that it has the special skill and knowledge available to assist the Company in the completions, testing and evaluation of the Company's resources.

### **Foreign Operations**

As a percentage of costs incurred in fiscal 2011 for exploration and evaluation assets, the Company focused approximately 12.7% of its resources on operations in Hungary and approximately 87.3% of its resources on operations in Australia.

### **Competitive Conditions**

The oil and gas industry in Australia, Hungary and South Africa, is, and will continue to be, competitive. Most contracts will be awarded on the basis of competitive bids, which results in price competition.

### **Dependence on Customers and Suppliers**

The Company is not dependent upon a single or few customers or supplier for revenues or its operations.

## **Changes to Contracts**

On July 13, 2011 Falcon announced the closing of the Beetaloo Basin E&P Agreement between Falcon Australia and Hess. Please see *General Development of The Business of Falcon - Development of the Business During 2011*".

## **Environmental Protection and Policies**

The Company is subject to various federal, state, territorial, provincial and local environmental laws and regulations enacted in most jurisdictions in which it operates, which primarily govern the manufacture, processing, importation, transportation, handlings and disposal of certain materials used in operations, as well as limits on emissions into the air and discharges into surface and sub-surface waters. The Company adheres to all such laws and regulations. The Company may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

Historically, environmental protection requirements have not had a significant financial or operational effect on the Company's capital expenditures, earnings or competitive position. Environmental requirements have not had a significant effect on such matters in fiscal 2011 nor are they currently anticipated in the future.

During 2011, all of the Company's operations were in compliance in all material respects with applicable corporate standards and environmental regulations and there were no material notices of violations, fines or convictions relating to environmental matters at any of the Company's operations.

The Company believes that it is in substantial compliance with all material current government controls and regulations at each of its properties.

See also "*General Development of the Business of Falcon*" and "*Risk Factors*".

## **Lending**

The Company has not engaged in since 2008 the preparation of formal lending or risk management policies or lending and investment restrictions. As at December 31, 2011 and the date hereof, the Company does not intend to lend to any third parties.

## **DISCLOSURE REGARDING OTHER OIL AND GAS ACTIVITIES**

The 51-101F1 Report, the 51-101F2 Report and the 51-101F3 Report are incorporated by reference herein.

## **RISK FACTORS**

The business of the Company is subject to many risks, including:

**The Company is an early stage company, which makes it difficult to evaluate its business prospects.**

Achieving the benefits of exploration and successful production of any existing properties as well as possible future acquisitions will depend in part on the Company's successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining any acquired businesses and operations with the Company's ongoing business or working with the existing

resources of future partners. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process with future targets could potentially result in the loss of key employees and the disruption of ongoing business, supplier, customer and employee relationships that may adversely affect the Company's ability to achieve the anticipated benefits of past and future acquisitions.

**The Company cannot be certain that it will continue to meet all requirements to maintain the Licenses.**

Hungarian Mining Law requires that the Company file annual plans of development ("**Plan**"). To the extent that the Company cannot fulfill the requirements, it might have to request extensions for filing a Plan or it might be at risk of losing rights under either of the Licenses. Alternatively, the Company might disagree with the government's interpretation of the legal requirements, in which case the Company might commence a legal proceeding, which could delay development of the Company's properties in Hungary. The properties are described more particularly in the section entitled "*Business Description*".

**The Company cannot be certain that current expected expenditures and completion/testing programs will be realized.**

There are assumptions, uncertainties, and risk that may cause the Company's allocated funds on a per well basis to change as a result of having to alter certain activities from those originally proposed or programmed to reduce and mitigate uncertainties and risks. These assumptions, uncertainties, and risks are inherent in the completion and testing of wells and can include but are not limited to: pipe failure, casing collapse, unusual or unexpected formation pressure, environmental hazards, and other operating or production risk intrinsic in oil and or gas activities. Any of the above may cause a delay in the Company's completion program and its ability to determine reserve potential.

**The Company may have substantial capital requirements that, if not met, may hinder its growth and operations.**

The Company's future growth depends on its ability to make large capital expenditures for the exploration and development of natural gas and oil properties. Future cash flows and the availability of financing will be subject to a number of variables, such as:

- the success of the Company's exploration and development program in Hungary, Australia and South Africa;
- success in locating and producing new reserves; and
- prices of natural gas and oil.

Additional financing sources may be required in the future to fund developmental and exploratory drilling. Issuing equity securities to satisfy the Company's financial requirements could cause substantial dilution to its existing shareholders. Additional debt financing could lead to:

- a substantial portion of operating cash flow being dedicated to the payment of principal and interest;
- the Company being more vulnerable to competitive pressures and economic downturns; and
- restrictions on the Company's operations.

Financing might not be available in the future or the Company might not be able to obtain necessary financing on acceptable terms. If sufficient capital resources are not available, the Company might be forced to curtail drilling and other activities or be forced to sell some assets on an untimely or unfavourable basis, which would have a material adverse effect on the Company's business, financial condition and results of 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.**

Although the Company believes it has reviewed and evaluated its properties in Hungary, Australia and South Africa in a manner consistent with industry practices, such review and evaluation might not necessarily reveal all existing or potential problems. Inspections may not always be performed on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and the Company often assumes environmental and other risks and liabilities in connection with the acquired properties.

**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.**

If the Company incurs debt, its ability to meet its debt obligations and reduce its level of indebtedness depends on future performance. General economic conditions, oil and gas prices and financial, business and other factors will affect the Company's operations and future performance. Many of these factors are beyond the Company's control. No assurances can be made that the Company will be able to generate sufficient cash flow to pay the interest on its debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. Factors that will affect its ability to raise cash through an offering of Common Shares or other types of equity securities, or a refinancing of debt include financial market conditions, the value of its assets and performance at the time the Company needs capital. No assurances can be made that the Company will have sufficient funds to make such payments. If the Company does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it might be required to sell significant assets. Any such sale could have a material adverse effect on the Company's business, financial condition and results of operations.

**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.**

If drilling activities increase in Hungary or Australia, or move forward in South Africa, shortages of drilling and completion rigs, field equipment and qualified personnel could develop. From time to time, these costs have sharply increased in various areas around the world and could do so again. The demand for and wage rates of qualified drilling rig crews generally rise in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or qualified personnel could delay, restrict or curtail the Company's exploration and development operations, which may materially adversely affect the Company's business, financial condition and results of operations.

**Resource estimates depend on many assumptions that may be inconclusive, subject to varying interpretations, or inaccurate.**

In May, 2010 Falcon received the Beetaloo Report and in May 2008, the RPS Scotia Report. The Beetaloo Report and the RPS Scotia Report all previously filed on SEDAR at [www.sedar.com](http://www.sedar.com), contain

estimates of resources and are limited to an estimate of the possible range of volume that theoretically may be produced in the respective geographical areas covered in the reports. None of these reports represents estimates of reserves. The resource estimates have been conducted using the definitions specified by the COGEH.

Although the Company believes that the Beetaloo Report and the RPS Scotia Report were prepared in accordance with industry standards, the Company cannot assure that the estimated costs are accurate, that the Company will be able to raise the necessary capital, that the development will occur as scheduled, or that the actual results will be as estimated.

Actual oil and gas prices, future production, revenues, operating expenses, taxes, development expenditures and quantities of recoverable oil and natural gas resources will most likely vary from those estimated by the Company. Any significant variance could materially adversely affect the estimated quantities and present value of future net revenues set forth in the Annual Information Form and the other documents incorporated by reference herein. A reduction in oil and gas prices, for example, would reduce the value of resources and reduce the amount of oil and gas that could be economically produced, thereby reducing the quantity of resources. The Company might adjust estimates of resources to reflect production history, results of exploration and development, prevailing oil and gas prices and other factors, many of which are beyond the Company's control.

The recovery of undeveloped resources requires significant capital expenditures and successful drilling operations. The data contained in the Beetaloo Report and the RPS Scotia Report assume that the Company will make significant capital expenditures to develop its resources. Although the Company has prepared estimates of its natural gas and oil resources and the costs associated with these resources in accordance with industry standards, no assurances can be given that the estimated costs are accurate, that development will occur as scheduled or that the actual results will be estimated. The Company might not be able to raise the capital it needs to develop these resources.

**The Company cannot be certain that current expected expenditures and completion/testing programs will be realized.**

The Company believes that the costs used to prepare internal budgets are reasonable, however, there are assumptions, uncertainties, and risk that may cause actual allocated funds on a per well basis to change as a result of having to alter certain activities from those originally proposed or programmed to reduce and mitigate those uncertainties and risks. These assumptions, uncertainties, and risks are inherent in the completion and testing of wells and can include but are not limited to pipe failure, casing collapse, unusual or unexpected formation pressure, environmental hazards, and other operating or production risk intrinsic in oil and or gas activities. Any of the above may cause a delay in the Company's programs and its ability to determine reserve potential.

**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 Canada, the US, Hungary, Australia, South Africa and globally;
- industry conditions, including fluctuations in the price of oil and natural gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil 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 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, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- Hungarian and worldwide supplies and prices of and demand for natural gas and oil;
- political conditions and developments in Hungary, Canada, the US, Australia, South Africa and globally;
- political conditions in natural gas and oil producing regions;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the oil and gas industry;
- limited trading volume of the 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.

In the past, companies that have experienced volatility in their value have been the subject of securities class action litigation. The Company might become involved in securities class action litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources and could have a material adverse effect on the Company's business, financial condition and results of operation.

**The Company might not be able to obtain necessary approvals from one or more Australian, Hungarian or South African government agencies, surface owners, or other third parties, for one or more of the following:**

- surface use for seismic surveys;
- surface use for drilling activities;
- surface use for gathering lines, pipelines, or surface equipment;
- commencing one or more wells (that is, drilling permits); or
- sales of the product.

There are numerous permits, approvals and agreements with third parties required in order to enable the Company to proceed with its development plans and otherwise accomplish its objectives.

### *Hungary*

Hungarian government agencies have discretion in interpreting various laws, regulations, and policies governing operations under the Licenses. Further, the Company must enter into agreements with private surface owners to obtain access and agreements for the location of surface facilities. In addition, because Hungary enacted a new set of mining laws (which also govern oil and gas operations) in 1993, which have since been amended, there is only a relatively short history of the government agencies' handling and interpreting those laws, including the various regulations and policies relating to those laws. This

short history does not provide extensive precedents or the level of certainty that allows the Company to predict whether such agencies will act favourably toward the Company.

Neither the Licenses nor Hungarian mining laws grant reasonable use of the surface across the geographical area covered by the Licenses. Instead, the licensee must obtain rights-of-way from surface owners, including private landowners, for access and other purposes. The land owner must ensure that those engaging in mining operations make observations and measurements, lay cables, put up adequate signage, and take any other actions necessary. If the land owner and miner cannot establish operations that meet their mutual agreement, a prospective miner may request and pay for an easement from the Hungarian government. Similar to requirements in the US, the licensee must obtain a drilling permit from the government for each well. The Hungarian government has discretion to interpret various requirements for the issuance of drilling permits, and there is no assurance that the Company will be able to meet all such requirements. Any inability of the Company to meet any such requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

### *Australia*

In Australia, ownership of onshore petroleum resources are reserved to and are owned by the Crown in right of the State or Territory in which they occur. Offshore petroleum (beyond a 3 mile limit from the coastline) is governed by and owned by the Crown in right of Australia. Each Australian State and Territory operates under its own legislation. The Crown issues licences to explore for and exploit hydrocarbons. Usually these titles are called exploration permits and production titles.

The exploration permits in which Falcon has an interest are located in the Beetaloo Basin in the Northern Territory, Australia. Onshore exploration and production of petroleum in the Northern Territory is regulated by the *Petroleum Act 1984 (NT)* ("**Petroleum Act**"). Under the Petroleum Act, an exploration permit remains in force for up to five years and is given by reference to the number of graticular blocks (a graticular block is usually one degree of latitude by one degree of longitude). The holder of an exploration permit may apply for a renewal of the permit for a further period of five years in respect of no more than half of the existing blocks of the exploration permit. Additionally, the exploration permit will not be renewed more than twice.

Australian government agencies have discretion in interpreting various laws, regulations and policies, which govern operations in the Beetaloo Basin. Actions by Australian government agencies may affect the Company's operations including obtaining necessary approvals, land access, sovereign risk, regulatory risk, taxation and royalties which may be payable on the proceeds of the sale of any successful exploration. Further, the approval of contractual arrangements in relation to exploration permits as well as the renewal of exploration permits are also matters of governmental discretion and no guarantee can be given in this regard.

In Australia, Aboriginal native title to land ("**Native Title**") has survived the Crown's acquisition of sovereignty. The *Native Title Act 1993 (Cth)* and the complementary state Native Title legislation, regulates the recognition and protection of Native Title in Australia and, amongst other things, sets out the procedures to be followed in relation to certain "future acts" including the grant of petroleum tenements. The Company is required to obtain clearances, consents and approvals in relation to Native Title in connection with the exploration permits in the Beetaloo Basin. Access may be restricted or subject to suitable arrangements being agreed and entered into (for example, compensation and access arrangements) in respect of areas the subject of Native Title. If the requisite approvals and consents are not obtained in respect of the exploration permits within the Beetaloo Basin, there may be a material adverse effect on the Company's business and operations.

**Drilling for and producing natural gas and oil are high-risk activities with many uncertainties that could adversely affect the Company's business, financial condition or results of operations.**

The Company's future success depends primarily on the success of its exploration, development and production activities in the Hungary Project and the Beetaloo Basin Project. These activities are subject to numerous risks beyond the Company's control, including the risk that it will not find any commercially productive natural gas or oil reservoirs. The Company's decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or prevent drilling operations, including:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- pipeline and processing interruptions or unavailability;
- title problems;
- adverse weather conditions;
- lack of market demand for natural gas and oil;
- delays imposed by or resulting from compliance with environmental and other regulatory requirements;
- shortage of or delays in the availability of drilling rigs and the delivery of equipment; and
- reductions in natural gas and oil prices.

The Company's future drilling activities might not be successful, and drilling success rate overall or within a particular area could decline. The Company could incur losses by drilling unproductive wells. Although the Company has identified numerous potential drilling locations, no assurances can be made that the Company will ever drill them or will produce natural gas or oil from them or from any other potential drilling locations. Shut-in wells, curtailed production and other production interruptions may materially adversely affect the Company's business, financial condition and results of operations.

**Competition in the oil and 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.**

The Company operates in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies, including US-based and foreign companies doing business in Hungary, Australia and South Africa. The Company faces intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in each of the following areas:

- seeking oil and gas exploration licenses and production licenses in Hungary, Australia and South Africa;
- acquiring desirable producing properties or new leases for future exploration;
- marketing natural gas and oil production;
- integrating new technologies; and
- acquiring the equipment and expertise necessary to develop and operate properties.

Many of the Company's competitors have substantially greater financial, managerial, technological and other resources. These companies might be able to pay more for exploratory prospects, and productive oil and gas properties and prospects than the Company's financial or human resources permit. To the extent competitors are able to pay more for properties than the Company is paying, it will be at a competitive disadvantage. Further, many competitors may enjoy technological advantages and may be able to implement new technologies more rapidly. The Company's ability to explore for natural gas and oil prospects and to acquire additional properties in the future will depend upon its ability to successfully conduct operations, implement advanced technologies, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

**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.**

The Company's interests may be affected by political and economic upheavals. Although the Company currently operates in jurisdictions that welcome foreign investment and are generally stable, there is no assurance that the current economic and political situation in these jurisdictions will not change drastically in coming years. Local, regional and world events could cause the jurisdictions in which the Company operates to change the mining laws, tax laws, foreign investment laws, or to revise their policies in a manner that renders the Company's current and future projects non-economic. Further, there is always the possibility of the governments in the jurisdictions in which the Company operates deciding to nationalize the oil and gas industry, or imposing such restrictions and penalties on foreign-owned entities that the Company's current and future projects would become uneconomic, or the Company would be prevented from selling its assets or operating its business. The occurrence of any such fundamental change could have a materially adverse effect on the Company's business, financial condition and results of operations.

**Market conditions or operation impediments may hinder the Company's access to natural gas and oil markets or delay its production.**

The marketability of the Company's production depends in part upon the availability, proximity and capacity of pipelines, natural gas gathering systems and processing facilities. This dependence is heightened where this infrastructure is less developed. If drilling results are positive in certain areas of the Licenses or any of the Company's other properties, a new gathering system would need to be built to handle the potential volume of gas produced. The Company might be required to shut-in wells, at least temporarily, for lack of a market or because of the inadequacy or unavailability of transportation facilities. If that were to occur, the Company would be unable to realize revenue from those wells until arrangements were made to deliver production to market.

The Company's ability to produce and market natural gas and oil is affected and also may be harmed by:

- the lack of pipeline transmission facilities or carrying capacity;
- the proximity and capacity of processing equipment;
- the availability of open access transportation infrastructure;
- government regulation of natural gas and oil production including environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas;
- government transportation, tax and energy policies;
- changes in supply and demand; and
- general economic conditions.

Any change in such factors could materially adversely affect the Company's business, financial condition and results of operations.

**A substantial or extended decline in natural oil and gas prices may adversely affect the Company's ability to meet its capital expenditure obligations and financial commitments.**

The Company's revenues, operating results and future rate of growth are substantially dependent upon the prevailing prices of, and demand for, natural gas and oil. Declines in the prices of, or demand for, natural gas and oil may adversely affect the Company's business, financial condition and results of operations. Lower natural gas and oil prices may also reduce the amount of natural gas and oil that the Company can produce economically. Historically, natural gas and oil prices and markets have been volatile and they are likely to continue to be volatile in the future. A decrease in natural gas or oil prices will not only reduce revenues and profits, but will also reduce the quantities of reserves that are commercially recoverable and may result in charges to earnings for impairment of the value of these assets. If natural gas or oil prices decline significantly for extended periods of time in the future, the Company might not be able to generate enough cash flow from operations to meet its obligations and make planned capital expenditures. Natural gas and oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, natural gas and oil, market uncertainty and a variety of additional factors that are beyond the Company's control. Among the factors that could cause this fluctuation are:

- change in global supply and demand for natural gas and oil;
- levels of production and other activities of the Organization of Petroleum Exporting Countries, and other natural gas and oil producing nations;
- weather conditions;
- the availability of transportation infrastructure;
- market expectations about future prices;
- the level of global natural gas and oil exploration, production activity and inventories;
- the overall level of energy demand;
- the effect of worldwide environmental and/or energy conservation measures;
- currency exchange rates;
- government regulations and taxes;
- the overall economic environment;
- political conditions, including embargoes, in or affecting other oil producing activity; and
- the price and availability of alternative fuels.

Lower natural gas and oil prices may not only decrease the Company's revenues on a per unit basis, but also may reduce the amount of natural gas and oil that it can produce economically. A substantial or extended decline in oil or natural gas prices may materially adversely affect the Company's business, financial condition, borrowing ability and results of operations.

**Falcon may enter into hedging agreements but may not be able to hedge against all such risks.**

From time to time Falcon may enter into agreements to receive fixed or a range of prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Falcon will not benefit from such increases. Similarly, from time to time Falcon may enter into agreements to fix the exchange rate of certain currencies to US dollars in order to offset the risk of revenue losses if the other currencies increase in value compared to the US dollar; however, if other currencies decline in value compared to the US dollar, Falcon will not benefit from the fluctuating exchange rate. In addition to the potential of experiencing an opportunity cost, other potential costs or losses associated with hedging include the risk

that the other party to a hedge transaction does not perform its obligations under a hedge agreement, the hedge is imperfect or our hedging policies and procedures are not followed.

**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.**

Exploration for and exploitation, production and sale of oil and gas in Hungary, Australia and South Africa are subject to extensive national and local laws and regulations, including complex tax laws and environmental laws and regulations, and requires various permits and approvals from various governmental agencies. If these permits are not issued or unfavourable restrictions or conditions are imposed on the Company's drilling activities, it might not be able to conduct its operations as planned. Alternatively, failure to comply with these laws and regulations, including the requirements of any permits, might result in the suspension or termination of operations and subject the Company to penalties. Compliance costs may be significant. Further, these laws and regulations could change in ways that substantially increase the Company's costs and associated liabilities. The Company cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations will not harm its business, results of operations and financial condition.

**The loss of the Company's key management, technical personnel and Directors or its inability to attract and retain experienced technical personnel could adversely affect the Company's ability to operate.**

Falcon depends to a large extent on the efforts and continued employment of the members of the Company's management team and Board. The loss of such services could adversely affect the Company's business operations.

The success of the Hungary Project, the Beetaloo Basin Project and the Karoo Basin depend, in part, on the Company's ability to attract and retain experienced petroleum engineers, geologists and other key personnel. From time to time, competition for experienced engineers and geologists is intense. If the Company cannot retain these personnel or attract additional experienced personnel, its ability to compete in the geographic regions in which the Company conducts operations could be harmed.

**The Company does not insure against all potential operating risks. It might incur substantial losses and be subject to substantial liability claims of its natural gas and oil operations.**

The Company does not insure against all risks. It maintains insurance, to the extent available in Hungary, against various losses and liabilities arising from operations in accordance with customary industry practices and in amounts that management believes to be prudent. Losses and liabilities arising from uninsured and underinsured events or in amounts in excess of existing insurance coverage could have a material adverse effect on the Company's business, financial condition or results of operations. The Company's natural gas and oil exploration and production activities will be subject to hazards and risks associated with drilling for, producing and transporting natural gas and oil, and any of these risks can cause substantial losses resulting from:

- environmental hazards, such as uncontrollable flows of natural gas, oil, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling, and service tools and casing collapse;
- fires and explosions;

- personal injuries and death;
- regulatory investigations and penalties; and
- natural disasters.

Any of these risks could have a material adverse effect on the Company's ability to conduct operations or result in substantial losses. The Company might elect not to obtain insurance if it believes that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could have material adverse effect on the Company's business, financial condition and results of operations.

**To the extent that the Company establishes natural gas and oil reserves, it will be required to replace, maintain or expand its natural gas and oil reserves in order to prevent its reserves and production from declining, which could adversely affect cash flows and income.**

In general, production from natural gas and oil properties declines over time as reserves are depleted, with the rate of decline depending on reservoir characteristics. If the Company establishes reserves, of which there is no assurance, and is not successful in its subsequent exploration and development activities or in subsequently acquiring properties containing proved reserves, its proved reserves will decline as reserves are produced. The Company's future natural gas and oil production is highly dependent upon its ability to economically find, develop or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing production volume prices for natural gas and oil or an increase in finding and development costs, and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand its asset base of natural gas and oil reserves would be impaired. Even with sufficient available capital, its future exploration and development activities may not result in additional proved reserves, and the Company might not be able to drill productive wells at acceptable costs.

**Trading in the Common Shares may be suspended and/or the Common Shares may be excluded from trading on a stock exchange on which it is listed.**

The TSX Venture Exchange (the "TSXV") has the right to suspend the trading of a given security if the issuer of the security fails to comply with the regulations of that exchange (such as for example to obey the disclosure rules), or if suspension is necessary to protect the interest of market participants, or if the orderly functioning of the market is temporarily endangered. There can be no assurance that trading in the Common Shares will not be suspended. A suspension of trading could adversely affect the trading price of the Common Shares.

**Falcon is incorporated in British Columbia, Canada.**

Falcon is a company incorporated in the province of British Columbia, Canada and as such, its corporate structure, the rights and obligations of shareholders and its corporate bodies may be different from those of the home countries of international investors. Furthermore, non-Canadian residents may find it more difficult and costly to exercise shareholder rights. International investors may also find it costly and difficult to effect service of process and enforce their civil liabilities against the Company or some of its directors, controlling persons and officers.

**Partners in joint venture operations may fail to perform their contractual obligations.**

Some of the Company's properties may be held in joint venture relationships in which other parties act as operators of the area. There is a risk that the Company may have disputes with these parties, including

disputes regarding the quality and/or timelines of work performed by these parties. A failure by one or more of the Company's partners to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact the Company's financial position. In addition, the Company will be exposed to the general risks associated with the businesses, operations and financial condition of its partners including, among other things, the risks of bankruptcy, insolvency, management changes, adverse change of control and natural disasters.

## **DIVIDENDS**

Falcon has not declared any dividends on the Common Shares. The Board currently anticipates retaining earnings to finance the growth and development of the business of Falcon. Any future determination to pay dividends will be at the discretion of the Board and will depend upon Falcon's financial condition, results of operations, capital requirements and such other factors as the Board deems relevant.

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **Common Shares**

Falcon is authorized to issue an unlimited number of Common Shares, of which as at December 31, 2011 there were 695,654,500 issued and outstanding and as of the date hereof there were 695,654,500 issued and outstanding. Holders of Common Shares are entitled to receive notice of any meetings of shareholders of Falcon, and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a *pro rata* basis such dividends, if any, as and when declared by the Board at its discretion from funds legally available therefore, and upon the liquidation, dissolution or winding up of Falcon are entitled to receive on a *pro rata* basis the net assets of Falcon after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a *pro rata* basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

### **Debentures**

#### *General*

The Debentures were issued under the Trust Indenture between Falcon, the Indenture Trustee and Computershare Trust Company of Canada dated June 30, 2009 entered into in connection with the Debenture Offering (the "**Trust Indenture**"). Computershare Trust Company of Canada (the "**Indenture Trustee**") acts as trustee under the Trust Indenture.

Debentures were issued in denominations of CDN\$1,000 and integral multiples thereof. The Debentures bear interest at an annual rate of 11% calculated and payable semi-annually in arrears on January 1 and July 1 in each year commencing January 1, 2010. Interest will be payable at 11% on overdue interest. On June 30, 2013 (the "**Maturity Date**") the outstanding principal amount of the Debentures, together with all accrued and unpaid interest will become due and payable. The Debentures are unsecured direct obligations of the Company and will not be secured by any mortgage, pledge, hypothec or other charge. In certain circumstances the Trust Indenture will restrict the Company from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its property to secure any

indebtedness. The Debentures are transferable subject to compliance with the Trust Indenture and all regulatory requirements.

#### *Automatic Conversion*

If, during the two year period following June 30, 2009 (the “**Closing**”) (until June 30, 2011), the volume weighted average trading price of the Common Shares is CDN\$0.85 or greater for 20 consecutive trading days, the Debentures will automatically be converted at CDN\$0.60 (the “**Conversion Price**”) per Common Share and Debentureholders will be entitled to receive accrued and unpaid interest, in cash, to the end of the first 12 month period or 24 month period after Closing, as the case may be.

#### *Optional Conversion Privilege*

Each Debenture will be convertible at the option of the Debentureholder at any time prior to the close of business on the earlier of: (i) June 30, 2013; and (ii) and the business day immediately fixed by the Company for redemption of the Debentures, at the Conversion Price, being a conversion ratio of approximately 1,667 Common Shares for each CDN\$1,000 principal amount of Debentures. The Conversion Price is subject to adjustment upon the occurrence of certain events. Debentureholders converting their Debentures will receive accrued and unpaid interest in cash thereon up to, but not including, the date of conversion. No fractional shares will be issued. Notwithstanding the foregoing, no Debentures may be converted during the 10 business days preceding and including January 1 and July 1 in each year, commencing January 1, 2010 as the registers of the Indenture Trustee will be closed during such periods.

#### *Redemption and Purchase for Cancellation*

The Company had a one-time option to redeem the Debentures which has expired.

#### *Modification or Waiver*

The rights of the holders of the Debentures may be modified or waived in accordance with the terms of the Trust Indenture. For that purpose, among others, the Trust Indenture contains certain provisions which make binding on all Debentureholders resolutions passed at meetings of the holders of Debentures (which may be called by the Indenture Trustee upon request by the Company or the holders of Debentures representing not less than 75% of the total principal amount of all Debentures then outstanding upon not less than 21 days notice) by votes cast thereat by holders of outstanding Debentures representing not less than a majority of the votes cast in respect of such resolution at such meeting, or in the case of Extraordinary Resolutions (as defined in the Trust Indenture and including waivers for events of default), not less than 66 2/3%, of the aggregate principal amount of the Debentures present at the meeting or represented by proxy, provided that a quorum for all meetings of holders of Debentures will be at least 50% of the principal amount of outstanding Debentures represented in person or by proxy, or rendered by instruments in writing signed by the holders of not less than a majority.

In certain circumstances, the Company and the Indenture Trustee may amend the Trust Indenture or the Debentures for certain purposes, including to: (a) cure any ambiguity, defect or inconsistency, provided, however, that the amendment to cure any such ambiguity, defect or inconsistency does not materially adversely affect the rights of holders of Debentures; (b) provide for the assumption by a successor of the Company’s or the Indenture Trustee’s obligations under the Trust Indenture; (c) make any change to comply with any applicable laws or requirements of any governmental authority relating to trust indentures; (d) provide for an additional series of Debentures; (e) give effect to any resolution passed in accordance with the Trust Indenture; and (f) make any other change that does not adversely affect the rights of holders of Debentures.

## MARKET FOR SECURITIES

### Trading Price and Volume

The Common Shares are listed and posted for trading on the TSXV, where they trade under the stock symbol “FO”. The following table sets forth, for the periods indicated, the reported high and low prices (each in Canadian dollars) and the aggregate trading volume of the Common Shares on the TSXV<sup>(1)</sup>:

Period	High	Low	Trading Volume
<b>2012</b>			
April	\$0.10	\$0.08	3,919,499
March	\$0.105	\$0.09	3,432,366
February	\$0.12	\$0.10	3,098,675
January	\$0.12	\$0.10	5,932,621
<b>2011</b>			
December	\$0.13	\$0.09	9,061,337
November	\$0.18	\$0.12	11,346,936
October	\$0.185	\$0.12	20,171,739
September	\$0.125	\$0.115	6,404,357
August	\$0.15	\$0.115	7,207,072
July	\$0.175	\$0.14	10,228,902
June	\$0.18	\$0.13	18,352,427
May	\$0.165	\$0.145	5,402,048
April	\$0.16	\$0.145	7,173,321
March	\$0.18	\$0.145	8,611,872
February	\$0.195	\$0.16	17,987,488
January	\$0.175	\$0.15	26,160,755

Notes:

(1) Data obtained from www.tsx.com.

(2) Up to and including the trading of the Common Shares on the close of business on April 27, 2012.

### Prior Sales

During the year ended December 31, 2011 the Company issued the following securities.

#### *Common Shares*

On April 11, 2011 Falcon issued 87,050,000 Common Shares in the 2011 PP. On October 14, 2011, Falcon issued 676,800 Common Shares to employees as bonuses for services. On October 14, 2011 Falcon issued 660,900 Common Shares in the October, 2011 Private Placement.

#### *Warrants*

On April 11, 2011, Falcon issued 33,400,000 2011 PP Warrants as part of the 2011 PP. On July 13, 2011, Falcon issued the Hess Warrants as part of the closing of the ERP Agreement.

#### *Stock Options*

On May 23, 2011, the Company granted 17,660,000 incentive stock options pursuant to its stock option plan.

## DIRECTORS AND EXECUTIVE OFFICERS

### Directors and Executive Officers

The following table sets out Falcon's directors and executive officers as of the date hereof, provides the person's name, location of residence, position(s) held with Falcon, principal occupation during the last five years and if a director, the date on which the person became a director. Each of Falcon's directors will hold office until the close of the next annual meeting of shareholders or until such director's successor is duly elected or appointed. Falcon understands based on information available publicly, that all of Falcon's current directors and executive officers as a group beneficially own, control or direct, directly or indirectly, over 54,597,073 Common Shares representing, as at April 27, 2012, approximately 7.84% of Falcon's issued and outstanding Common Shares.

Name and Residence	Position in the Company	Date First Elected/ Appointed	Principal Occupation During Last 5 Years
Igor Akhmerov Kilchberg, Switzerland	Director	December 14, 2010, formerly a director from September 18, 2007 to May 29, 2008	Chief Executive Officer, Avelar Energy Group
JoAchim Conrad <sup>(3)</sup> Cham, Switzerland	Director	October 6, 2008	Managing Director of GAZPROM Marketing and Trading Germania
John Craven <sup>(1)(3)(4)</sup> Dublin, Ireland	Director and Chairman of Board.	December 22, 2009	Director and CEO of Cove Energy plc Founder and CEO of AIM and IEX
Daryl H. Gilbert <sup>(3)(4)</sup> Calgary, Alberta, Canada	Director	September 21, 2007	Independent Businessman
Andrew J. Morris London, UK	Director	November 3, 2011	Founder of Persistency Capital
Robert C. Macaulay <sup>(2)(4)</sup> Calgary, Alberta	CEO, President and Director	December 22, 2009	Chief Executive Officer of the Company, Independent Businessman, Consultant Director of PetroGlobe Inc.
Philip O'Quigley	CEO commencing May 1, 2012	n/a	Finance Director, Providence Resources
Gregory Smith <sup>(1)(2)(3)</sup> Calgary, Alberta	Director	December 22, 2009	Chartered Accountant President of Oakridge Financial Management Inc. CFO of Maglin Site Furniture Inc. Director of Armistice Resources and TriWestern Energy Corp.
Dr. György Szabó Budapest, Hungary	Director and Co-Managing Director of TXM	April 24, 2006	Consultant and Mining Bureau Registered Technical Responsible Person for TXM Oil & Gas Exploration Kft.
Roderick J. Wallis Boulder, Colorado, US	Chief Operating Officer	n/a	Chief Operating Officer of the Company; Senior Geologist of the Company, Senior Geologist of PetroHunter Energy Corporation, and

<b>Name and Residence</b>	<b>Position in the Company</b>	<b>Date First Elected/ Appointed</b>	<b>Principal Occupation During Last 5 Years</b>
			Vice President and Chief Geologist at Gustavson Associates, LLC
Evan L. Wasoff Nederland, Colorado US	Chief Financial Officer	n/a	Chief Financial Officer of the Company
Daniel Bloch Toronto, ON	Corporate Secretary	n/a	Partner of Aird & Berlis LLP.

Notes:

- (1) Member of the audit committee.
- (2) Member of the nomination and compensation committee.
- (3) Member of the corporate governance committee.
- (4) Member of the reserves and resource committee.

### ***Igor Akhmerov***

Mr. Akhmerov has been a member of the Board since December 14, 2010. He graduated from the Moscow Institute of Management (1989), Wharton Business School (1995), and Lauder Institute of Business and International Relations (1995). From 1989 through 1993 he worked at the Moscow office of Bain & Company, specialized in privatization and banking. After graduation from Wharton Business School he worked for the Boston office of Bain & Company. In 1998 he returned to Russia and joined Sputnik Group, the largest Russian private equity investment group, as a partner. In 2001 he moved to TNK as First Vice President for Planning, Budgeting, Investment Governance, Taxes, and Reporting. From 2004 until 2006 he served as Chief Financial Officer of Renova Group. He has served as Chief Executive Officer of Avelar Energy Group since 2007. Mr. Igor Akhmerov is also a Non-Executive Member of the Board of Directors of Kerself SpA, the leading player in the Italian solar market, since September 24, 2008.

### ***Joachim Conrad***

Mr. Conrad has been a member of the Board since October 6, 2008. He is Managing Director of GAZPROM Marketing and Trading Germania. With a strong track record in the European natural gas industry, he was formerly serving in the position as member of the group executive board of Elektrizitäts-Gesellschaft Laufenburg AG (“EGL”), a European energy trading company with its own energy producing assets listed on the Swiss stock exchange (SWX: EGL), where he was responsible for EGL’s gas division. At the same time, Mr. Conrad was member of the supervisory board of certain of EGL’s foreign subsidiaries including the Trans Adriatic Pipeline AG, a joint venture of EGL and StatoilHydro. Prior to joining EGL, Mr. Conrad was Head of trading at WINGAS GmbH, Germany, a joint venture of Wintershall and Gazprom. He served in various management functions for 10 years in the German Oil & Gas Company Wintershall. Mr. Conrad obtained the rank of First Lieutenant in the German Air Force prior to obtaining a Diplomkaufmann focus: Economics and Information Technology, Graduation in Artificial Intelligence, from Georg-August Universität in 1992.

### ***John Craven***

Mr. Craven is a petroleum geologist with thirty five years experience in senior technical and commercial roles in upstream oil and gas exploration and production companies. Prior to joining Cove Energy plc (“Cove Energy”), he was founder and Chief Executive of AIM and IEX quoted, African and Mediterranean focussed, exploration company, Petroceltic International plc (“Petroceltic”). Petroceltic

grew under his direction and stewardship to a business with a diversified portfolio of exploration and appraisal projects in Italy, Algeria and Tunisia. Mr Craven has an MSc in Petroleum Geology from the Royal School of Mines in London and an MBA from Queens University in Belfast.

***Daryl H. Gilbert***

Mr. Gilbert is currently an independent businessman in Calgary, Alberta. He serves as a director of several energy related public entities such as AltaGas Ltd., Penn West Petroleum Ltd., Crocotta Energy Inc., MGM Energy Corp., Seaview Energy Inc., Galleon Energy Inc., Zed-I Solutions Inc., Suroco Energy Inc., PRD Energy Inc. and Longview Oil Corp. Mr. Gilbert is also managing director of JOG Capital Inc., a private equity firm. Mr. Gilbert Graduated from the University of Manitoba in 1973 with a Bachelor of Science Degree in Civil Engineering. Upon graduation he served in positions with the Alberta Energy Resources Conservation Board and Great Northern Oil Ltd. Mr. Gilbert entered the field of independent consulting in 1979 when he joined the predecessor oil and gas engineering and geological firm which became Gilbert Laustsen Jung Associates Ltd. He became a Principal Officer of the firm in 1988 and was appointed President and Chief Executive Officer in 1994 and served in both capacities until his retirement in early 2005. Mr. Gilbert is currently a member of the Association of Petroleum Engineers, Geologists and Geophysicists of Alberta, the Canadian Institute of Mining and Metallurgy and the Society of Petroleum Evaluation Engineers.

***Robert C. Macaulay***

Mr. Macaulay is currently serving as interim President and CEO of Falcon and has 27 years' industry experience in petroleum engineering, field development planning and business development. He was a director of PetroGlobe Inc. (TSXV – PGB) through July 2011, serving on the compensation committee and as chairman of the reserves committee. He held the post of V.P. Engineering and Production at Centurion Energy International Inc., a Canadian company active in Egypt which was sold at over 30,000 boepd in 2007. His past experience includes positions of increasing responsibility at Vermilion Resources (petroleum engineering for France properties and business development in Europe), Shell (reservoir engineering in Canada and the Sultanate of Oman) and PanCanadian Petroleum Ltd.

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

***Andrew J. Morris***

Mr. Morris has extensive international business experience and sits on the Board of several companies, ranging from early stage resource companies to emerging technology companies. He was founder of Persistency Capital, a private investment company with presence in London and New York where he has acted as both investor in, and adviser to, companies across a broad range of sectors and geographies. His current directorships include serving as Chairman of Blake Oil and Gas Limited, which has operations in the country of Georgia, Chairman of Kriisa Research Inc, a venture stage alternative energy company, Director of Southwest Energy Ltd, an oil and gas exploration company in Ethiopia, and a Director of Madagascar Oil Ltd, a heavy oil company in Madagascar. Previously, Mr. Morris spent 15 years in the financial services industry, including being a Director of Ernst & Young in London where he advised a broad range of organizations on Enterprise Risk Management including advice on corporate governance, management reporting, financial control, operational risk and process improvement. Mr. Morris holds a BSc (Hons.) degree in Mathematics from Bristol University and is a member of the Institute of Chartered Accountants in England and Wales.

***Philip O'Quigley***

Philip O'Quigley is a Fellow of the Institute of Chartered Accountants in Ireland. Having trained with Ernst & Young, Dublin, he moved into finance positions within the oil and gas industry in the early 1990's. He joined Glencar Mining plc, the IEX and AIM quoted gold mining company in 1997 as Finance Director. In 2002 he left Glencar Mining plc as an Executive Director and since that time has been involved in a number of private and public companies in the oil and gas industry, including Petroceltic International plc where he was Finance Director. Effective May 1, 2011, he assumed the position as Chief Executive Officer of the Company.

***Gregory Smith***

Smith is a chartered accountant and President of Oakridge Financial Management Inc., a corporation that provides accounting and financial consulting services to small and medium sized businesses. He is also the Chief Financial Officer of Maglin Site Furniture Inc., a corporation that manufactures and distributes public site furniture primarily in Canada and the United States. He is currently a director of Armistice Resources Corp. (since 1987), audit committee chairman of Armistice Resources Corp. (since 2001), director of TriWestern Energy Corp. (2009), audit committee chairman of TriWestern Energy Corp. (2009) and a director of a number of private corporations. He is a past director and audit committee chairman of a number of public corporations, including Manson Creek Resources Ltd., CDG Investments Inc. and Tyler Resources Inc. Mr. Smith was admitted to the Institute of Chartered Accountants of Alberta in 1975 and holds a B.Comm. from the University of Calgary.

***Dr. György Szabó***

Dr. Szabó has been a member of the Board since April 24, 2006 and has served as Chairman of the Board since September 23, 2009. Since 2005, Dr. Szabó serves as Consultant and Mining Bureau Registered Technical Person Responsible for TXM where he has overseen the design and implementation of the deepest High Pressure - High Temperature well ever drilled in Hungary. As its CEO, Dr. Szabó was instrumental in the privatization of Hungary's former National Oil Corporation (presently MOL) (BUD: MOL), the strategy relating to its capitalization, and its listing of the corporation on domestic and international securities exchanges in 1995. Until 1992, Dr. Szabó was an executive at MOL and its predecessor where he successfully managed the extinguishing of the Kuwait oil fire. From 1992 to 1994, Dr. Szabó was the CEO of TDE, and from 1994 to 1996, he was MOL's CEO and member of the Board. Dr. Szabó graduated from Miskolc University where he received a degree in Petroleum Engineering in 1963. Dr. Szabó received his Ph.D. in 1975.

***Roderick J. Wallis***

Mr. Wallis has been an employee of Falcon since September 2007. Prior to joining Falcon, Rod Wallis was the Senior Geologist for PetroHunter. He has been in the oil and gas industry for 22 years, including 11 years as a geologist and project leader with BP p.l.c., and five years with Venture Production. Prior to joining PetroHunter, Mr. Wallis was Vice President and Chief Geologist at Gustavson Associates, LLC where he worked on unconventional plays, including the Makó Trough. Mr. Wallis obtained his degree at the Royal School of Mines, Imperial College, London, and is a member of the American Association of Petroleum Geologists, Petroleum Exploration Society of Great Britain, Rocky Mountain Association of Geologists and a Fellow of the Geological Society.

***Evan Wasoff***

Mr. Wasoff has been Chief Financial Officer of Falcon since April 1, 2005. Mr. Wasoff has over 30 years of experience as a Certified Public Accountant. In 1985, he founded Wheeler Wasoff, P.C., a

Denver, Colorado CPA firm specializing in companies filing with the U.S. Securities and Exchange Commission between 1985 and 2005. Mr. Wasoff has been a consultant to Chartered Accounting firms in Calgary, Alberta, and Vancouver, British Columbia in securities matters and financial reporting issues in Canada and the United States. Prior to forming Wheeler Wasoff, P.C., he was a member of the audit staffs of Pannell, Kerr, Forster & Co. and Price Waterhouse. Mr. Wasoff holds an MBA in Finance from the University of Colorado and a BS in Accounting from the State University of New York at Albany. He is a licensed CPA in Colorado and a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Public Accountants.

### ***Daniel Bloch***

Mr. Bloch is a partner at Aird & Berlis LLP in Toronto, and member of the firm's Corporate Finance group and the National Resources Team. Mr. Bloch's practice focuses on all areas of corporate finance, mergers and acquisitions and securities law. Mr. Bloch regularly represents and provides general corporate and securities law advice to publicly and privately held corporations in a wide variety of industries. He has developed a particular expertise in advising issuers and underwriters in connection with public and private financings. Mr. Bloch is 42 years old and will devote approximately 10% of his professional time to managing the Resulting Issuer.

### **Penalties and Sanctions**

No director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of the Company to materially affect the control of Falcon, has been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to securities legislation, has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self regulatory body, that would likely be considered important to a reasonable security holder making an investment decision about Falcon.

### **Corporate Cease Trade Orders or Bankruptcies**

As stated above, Mr. Gilbert is a Director of Globel Direct. Globel Direct was issued cease trade orders on November 20, 2002 by the British Columbia Securities Commission and on November 22, 2002 by the Alberta Securities Commission for delay in filing financial statements. The required financial statements were filed and the cease trade orders were revoked on December 23, 2002. Globel Direct sought and received protection under *Companies Creditors Arrangement Act* (Canada) in June 2007 and, after a failed restructuring effort, a receiver was appointed by one of the Globel Direct's lenders in December 2007.

Other than set forth above, no director or executive officer of Falcon is, or within the ten (10) years prior to the date of this Annual Information Form, has been, a director or executive officer of any company that, while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days; or was subject to an order that was issued after the director or executive officer ceased to be a director or executive officer and which resulted from an event that occurred while that person was acting in the capacity as director or executive officer.

Other than set forth above, no director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of Falcon to materially affect the control of Falcon is, or within the ten (10) years prior to the date of this Annual Information Form, has been, a director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation

relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of Falcon to materially affect the control of Falcon has, within the ten (10) years prior to the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

### **Conflicts of Interest**

Certain officers and directors of Falcon are directors or officers of other oil and gas exploration companies. Consequently, potential conflicts of interest may arise in the event that these companies compete in respect of the sale or option of oil and gas properties in which Falcon is or may be interested.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors and officers conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the BCBCA and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

On November 10, 2009, as amended on March 16, 2011, the Company was served with a Complaint by a former vendor of TXM (the "**Vendor**") 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, and all obligation due to the Vendor have been satisfied.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

None of Falcon's current directors or executive officers, or persons or companies that are the direct or indirect beneficial owners of, or who exercise control or direction over, more than 10% of the outstanding Common Shares, or any associate or affiliate of any of the foregoing, has any interest, direct or indirect, in any material transactions in which Falcon has participated since January 1, 2008 which has materially affected or will materially affect Falcon, other than the following:

- (a) during 2011, the Company incurred \$231,000 (2010-\$128,000) to a current director of the Company, Dr. György Szabó, for advisory and consulting services rendered to TXM;
- (b) the Company has entered into certain agreements and transactions with PetroHunter, a non-arm's length party for the purposes of the TSXV, whose largest single shareholder was also the former President and CEO of the Company at the time of the transactions, for the acquisition of working interests from PetroHunter in the Beetaloo Basin Project; for a description of such transactions see "*General Development of The Business of Falcon -Development of the Business During 2009*"; and
- (c) David Brody, the Company's former Corporate Secretary, is a partner of Patton Boggs LLP, a US law firm that provided US legal advice to the Company. The Company has not recorded any amounts paid to Patton Boggs LLP as transactions with a related party in

2010 and 2009 because Mr. Brody did not receive any remuneration from Patton Boggs LLP during the term of his appointment as Corporate Secretary of Falcon.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in the City of Vancouver, British Columbia.

### **MATERIAL CONTRACTS**

The following are the only material contracts entered into by the Company, other than in the ordinary course of business:

- (a) the Beetaloo PSA;
- (b) the Second Beetaloo PSA;
- (c) the LOI between NIS and TXM;
- (d) the Trust Indenture; and
- (e) the E&P Agreement.

Copies of the foregoing agreements may be inspected during normal business hours at the head office of Falcon.

### **INTERESTS OF EXPERTS**

#### **Names of Experts**

The names of the experts are as follows:

- (f) Charles W. Chapman, co-author of the 51-101F2 Report;
- (g) KPMG LLP, the Company's auditors, 2700-205 5<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 4B9;
- (h) RPS Scotia Inc., author of the RPS Scotia Report and the Scotia Report, 4849 Greenville Avenue, Suite 1150 Dallas, Texas, U.S.A., 75206; and
- (i) Ryder Scott, author of the Ryder Scott Report 1100 Louisiana, Suite 3800, Houston, Texas, U.S.A., 77002.

#### **Interests of Experts**

Charles W. Chapman, RPS Scotia Inc., Ryder Scott or any director, officer, employee or partner thereof, as applicable, have not received a direct or indirect interest in the property of the Company or of any associate or affiliate of the Company. As of the date hereof, the directors, officers, employees and partners, as applicable, of each of the aforementioned companies and partnerships beneficially own, directly or indirectly in the aggregate, less than one percent of the securities of the Company. No director, officer, employee or partner, as applicable, of the aforementioned companies or partnerships is

currently expected to be elected, appointed or employee as a director, officer or employee of the Company or of any associate or affiliate of the Company.

KPMG LLP are the auditors of the Corporation and have confirmed that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Alberta Institute of Chartered Accountants.

#### **ADDITIONAL INFORMATION**

Additional information relating to Falcon may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional financial information is provided in Falcon's audited consolidated financial statements and MD&A for the year ended December 31, 2011.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Falcon's securities and options to purchase Falcon's securities, where applicable, is contained in Falcon's most recent information circular dated November 11, 2010.