



**Falcon Oil & Gas Ltd.**

Annual Information Form  
For the Fiscal Year Ended 31 December 2012

**30 April 2013**

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## 1. INTRODUCTION

The information provided herein in respect of Falcon includes information in respect of its wholly-owned subsidiaries: Makó Energy Corporation (“**Makó**”), a Delaware company; TXM Oil and Gas Exploration Kft., a Hungarian limited liability company (“**TXM**”); TXM Marketing Trading & Service Kft, a Hungarian limited liability company (“**TXM Marketing**”); Falcon Oil & Gas Ireland Ltd. (“**Falcon Ireland**”), an Irish limited liability company; Falcon Oil & Gas USA Inc., a Colorado company; JVX Energy S.R.L. (“**JVX**”), a Romanian company and its 72.7% majority owned subsidiary, Falcon Oil & Gas Australia Limited (“**Falcon Australia**”), an Australian company (collectively, the “**Company**” or the “**Group**”).

References to “**Falcon**” refer to Falcon Oil & Gas Ltd. only.

Unless otherwise noted, the information given herein is as at 31 December 2012.

### 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 realised. 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 Energy’s resource report titled “Evaluation of the Hydrocarbon Resource Potential Pertaining to Certain Acreage Interests in the Beetaloo Basin, Onshore Australia and Makó Trough, Onshore Hungary” (the “**RPS 2013 Report**”) dated 1 January 2013.
2. The Ryder Scott Company-Canada Resource Report, dated 3 May 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 1 May 2010” (the “**Beetaloo Report**”).
3. Statement of reserves Data and Other Oil and Gas Information with an effective date of 31 December 2012 (the “**51-101F1 Report**”).
4. Report on Reserves Data prepared by Chapman Petroleum Engineering Ltd. (“**Chapman**”) dated 15 March 2013 (the “**51-101F2 Report**”).
5. Report of Management and Directors on Reserves Data and Other Information dated 12 April 2013 (the “**51-101F3 Report**”).
6. Falcon Oil & Gas Ltd. consolidated financial statements for the year ended 31 December 2012 dated 12 April 2013.
7. Falcon Oil & Gas Ltd. management’s discussion & analysis for the three months and year ended 31 December 2012 (the “**Form 51-102F1**”) dated 12 April 2013.

## Dollar amounts

All dollar amounts below are in United States dollars, except as otherwise indicated. CDN\$ where referenced represents Canadian Dollars; £/Stg where referenced represents British Pounds sterling, HUF where referenced represents Hungarian Forint and A\$ where referenced represents Australian dollars.

The financial information provided herein has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

## RPS Energy Competent Persons Report (“CPR”)

The RPS 2013 Report on the hydrocarbon resource potential of the Beetaloo Basin and the Makó Trough describes a possible distribution of the un-risked prospective (recoverable) portion of un-risked undiscovered original oil and gas in-place resources, as defined by the Canadian Oil and Gas Evaluation Handbook (“COGEH”) and does not represent an estimate of reserves. The RPS 2013 Report has been prepared in accordance with the Canadian standards set out in the COGEH and is compliant with National Instrument 51-101 “Standards of Disclosure for Oil and Gas Activities.” Under Section 5.2 of COGEH: Undiscovered Petroleum Initially-In-Place (equivalent to undiscovered resources) is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, it may not be economically viable or technically feasible to produce any of the resources.

## 2. CORPORATE STRUCTURE

Falcon was incorporated and registered in British Columbia, Canada on 18 January 1980 under the laws of the Province of British Columbia with the name Sanfred Resources Ltd. (“Sanfred”).

On 21 December 1999, Sanfred consolidated its authorised and issued share capital. On the same date Sanfred changed its name to Falcon Oil & Gas Ltd. On 2 March 2005, Falcon transitioned from the British Columbia Company Act to the new *Business Corporations Act* (British Columbia) (“BCA”). Other than the subsidiaries through which Falcon acts, Falcon has no commercial name other than its registered name and does not operate under any other name.

Falcon is a public company and the principal legislation under which it operates is the BCA and the regulations made thereunder.

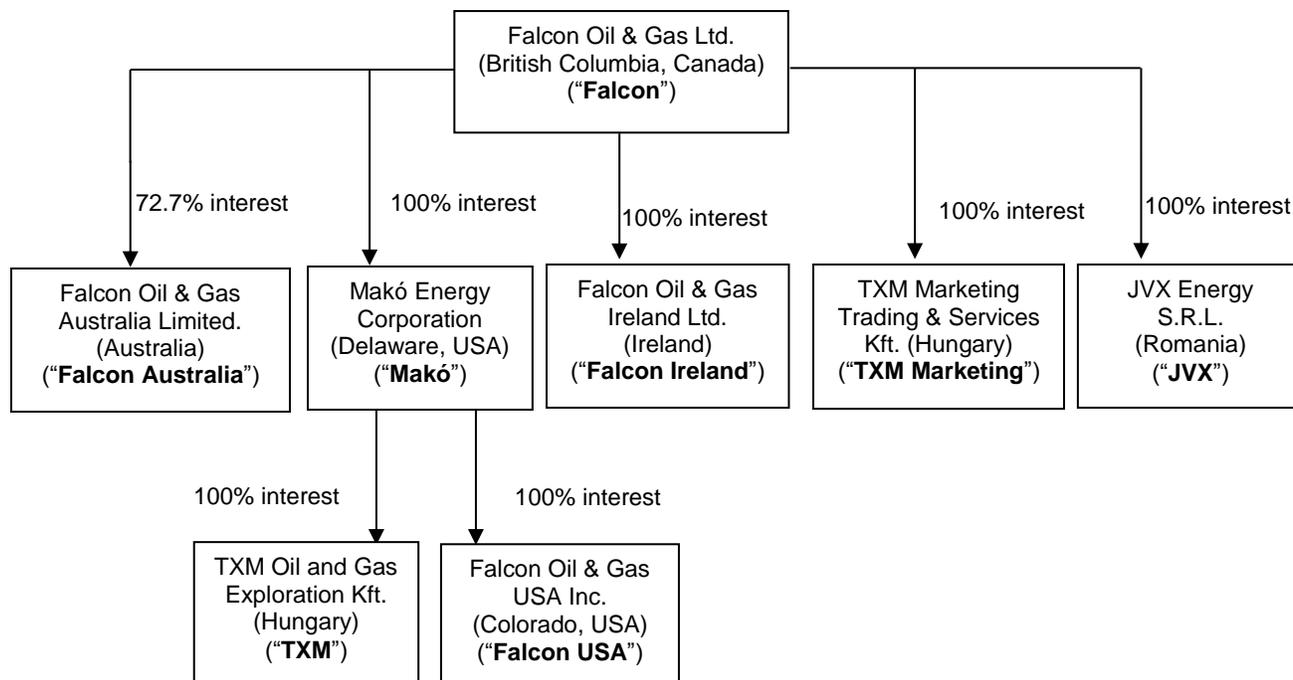
Falcon’s registered office is 810-675 Hastings Street West, Vancouver, British Columbia, V6B 1N2, Canada. Falcon’s head office is at Styne House, Upper Hatch Street, Dublin 2, Ireland with telephone number +353 1 417 1900. The address of the Company’s corporate website is <http://www.falconoilandgas.com>.

Falcon has no administrative, management or supervisory bodies other than the Board, and the committees as set out in this document, namely the Audit Committee, the Corporate Governance Committee, the Compensation Committee, the Nomination Committee and the Reserves Committee.

The principal activity of the Company is that of oil and gas exploration and development.

## Organisational Structure

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



**Falcon Australia** was formed in August 2008 to acquire working interests in certain properties in the Beetaloo Basin located in Northern Territory, Commonwealth of Australia.

**Makó** was incorporated under the laws of the State of Delaware on 8 November 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.

**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. On 24 February 2009, the Company reassigned its interest in the Buckskin Mesa Project to PetroHunter and the Company was relieved of all obligations related to the project.

**Falcon Ireland** was incorporated on 25 April 2012 and functions as a service company for the corporate headquarters.

**TXM Marketing** was formed in March 2007 to hold the Company's 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.

All shares issued by subsidiaries are common voting shares.

### 3. GENERAL DEVELOPMENT OF THE BUSINESS

The development of the business from 2010 to date is chronicled below:

#### 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 costing \$1.00, consisted of one Falcon Australia Share ("**FA Share**") and an option to acquire one additional FA Share (the "**FA Option**"). 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 \$4.9 million and \$1.2 million, respectively, before costs of the FA Offering of \$0.6 million. The proceeds from the FA Offering were utilised for operations in Australia.

On 19 February 2010, Falcon announced that it had received written notice (the "**Notice**") from ExxonMobil and MOL Hungarian Oil & Gas Plc ("**MOL**") stating that neither company would proceed to the next phase outlined in the production and development agreement (the "**PDA**") between Falcon, 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 23 April 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 Australia now held 100% of the Permits.

In May 2010 the Company received the Ryder Scott 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, Mr. Marc Bruner resigned from his position as President, CEO and a Director of Falcon and the positions of President and CEO were assumed by Mr. Robert 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 utilised for operations in Australia. Following the closing of the Offer, Falcon has a 72.7% interest in Falcon Australia.

In December, 2010, Mr. 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 2011

On 11 April 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 \$0.1 million was paid to a non-related entity.

On 28 April 2011, Falcon Australia entered the Evaluation and Participation Agreement (the "**E&P Agreement**") with Hess Australia (Beetaloo) Pty Ltd. ("**Hess**"). On 28 June 2011 upon fulfillment of all the conditions precedent to the E&P Agreement, the transaction with Hess closed. Upon closing, Hess paid \$20 million to the Company (i) \$17.5 million 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) \$2.5 million 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 14 November 2011, and expire on 13 January 2015.

Additionally, Hess paid to the Company \$2 million for Falcon Australia providing Hess copies of data obtained from the Shenandoah-1 well work program, which was completed in November 2011.

On 23 May 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 23 May 2013, and an expiry date of the options of 23 May 2016.

On 9 June 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 (“**the Makó Production licence**”) in Hungary in an area of approximately 995 square kilometres from a depth of 2,300 meters 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 \$1.5 million payment to TXM upon signing of a participation agreement. NIS would, at its own expense drill, test and complete three wells in the Agreement Area which were to be drilled and tested before 31 December 2012.

On 16 September 2011, 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 into 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 14 September 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 14 October 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 were then only listed on the TSX Venture Exchange, and the fair market value of the private placement at the time the transaction was agreed did not exceed 25% of Falcon’s market capitalisation.

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

## **Development of the business during 2012**

On 11 April 2012, Falcon announced the appointment of Mr. Philip O’Quigley to assume the role of Chief Executive Officer. Mr. Robert Macaulay remained on the board while assisting with the transition of CEO responsibilities to Mr. O’Quigley.

On 10 May 2012, Falcon granted incentive stock options to Mr. Philip O’Quigley to purchase an aggregate of 6,000,000 common shares of Falcon. Terms of the options included an exercise price of CDN\$0.10 per share, a vesting schedule allowing for 1/3 of the options to vest on the first anniversary of the grant with an additional 1/3 vesting each subsequent year until the options are fully vested on 1 May 2015, and an expiry date of the options of 1 May 2017.

On 18 June 2012, following the appointment of Mr. Philip O’Quigley as Chief Executive Officer, Falcon announced its decision to relocate its corporate headquarters to Dublin, Ireland. Consequently, the Denver office would be closing. The finance and executive function moved to Dublin while the primary technical function shifted to Falcon’s well established Hungarian office in Budapest where the Group operates exploration and producing interests. As part of the relocation process, Falcon appointed a new Dublin based Chief Financial Officer, Mr. Eoin Grindley. Mr. Eoin Grindley commenced his role on 30 July 2012.

Following the transfer of the Company's technical function to Budapest, Falcon's Chief Operating Officer, Mr. Rod Wallis elected to step down with effect from the 30 June 2012 to pursue other interests.

On 31 July 2012, the Falcon announced that its Hungarian subsidiary, TXM had concluded negotiations on a significant exploration program with NIS, the Serbian oil and gas company which is owned 56% by JSC Gazprom Neft. Under the terms of the transaction, the tax and accounting consequences of which were subject to favourable ruling to be requested from the Hungarian Ministry of Finance, NIS would drill three exploration wells targeting the "Algyö Play" within the company's Makó Trough production licence in the Pannonian Basin, Hungary. NIS would earn, by conclusion of the drilling obligation, 50% of the production revenues from the wells drilled and an option to acquire a right of first negotiation for future drilling operations in the Algyö Play. The Algyö is a relatively shallow play between 2,300 metres and 3,500 metres. A number of Falcon wells have been drilled through the Algyö in recent years but to date no well has ever tested the play concept as previous wells targeted deeper intervals of up to 6,000 metres. Falcon retained 100% interest in the "Deep Makó Trough".

On 20 August 2012, the company announced an operational update on exploration activities on its seven million acres (28,000 KM<sup>2</sup>) in the Beetaloo Basin, Northern Territory Australia. The details were:

- *2D Seismic Program:* Hess commenced the 2D seismic program on exploration permits ("EP") 76, 98 and 117 in 2011 pursuant to its obligations under the participation agreement with Falcon. However, due to unseasonably early and heavier rainfalls than normal, Hess acquired 470km of the 3,600km in 2011 and an additional 630km as at 20 August 2012. Hess had now deployed two seismic crews, Western Geco and Terrex, in the Beetaloo Basin. At the then "run rate" of 25km of 2D seismic per day, Hess was on target to complete the acquisition of the entire 3,600km before the end of 2012 and increased its capital expenditure to the program from \$40 million to an anticipated \$57.5 million. Falcon remained fully carried throughout the seismic program.
- *Exploration Drilling Phase:* Hess has until 30 June 2013 to commit to the drilling of five exploration wells on EP's 76, 98 and 117 to earn 62.5% in the exploration permits. This was a revised date agreed with Falcon which allows Hess adequate time to complete the acquisition and processing of the 3,600km of 2D seismic. Should Hess commit to the drilling of the exploration wells, Falcon's interest in EP's 76, 98 and 117 will reduce to 37.5%, but Falcon will be fully carried through the drilling of all five wells.
- *Development Drilling Phase:* In addition to carrying Falcon on the five well exploration program, should Hess elect to proceed to the "development phase", Hess has also agreed to carry Falcon, on the first development well, up to a gross cost of \$10 million.

The additional carry during the development phase and the later drilling election date were contingent on obtaining Northern Territory Department of Resources approval for a 12 month extension of permits until 31 December 2013. This extension was granted in September 2012.

On 7 September 2012, the Government of South Africa announced the lifting of the moratorium on shale gas exploration. Falcon holds a 100% interest in a 7.5 million acre Technical Cooperation Permit in the Southwest Karoo Basin which was granted in October 2009. In January 2011, Falcon submitted an application for an exploration right covering the same area. With the announcing of the lifting of the moratorium, Falcon was planning to look for feedback from the licensing authority regarding its application.

On 27 September 2012, Falcon announced that Mr. Philip O'Quigley and Mr. David Harris had been elected to Falcon's Board of Directors at the Annual & Special General Meeting of shareholders held in Vancouver on 25 September 2012. Mr. Robert Macaulay and Mr. Andrew Morris stepped down from the Board with effect from the AGM date.

On 12 December 2012, Falcon announced that it had entered into an Agreement (the "**Agreement**") with Chevron Business Development South Africa Limited ("**Chevron**") which allowed both parties to jointly co-operate together in order to seek unconventional exploration opportunities in the Karoo Basin, South Africa. The Agreement provided for Falcon to work exclusively with Chevron for a period of five years in jointly obtaining exploration permits in the Karoo Basin subject to the parties mutually agreeing participation terms applicable to each permit and as such, there would be future announcements by Falcon when an exploration permit is awarded. In February of 2013, Chevron made a cash payment of \$1 million to Falcon as a contribution to past costs.

## Development of the business during 2013

On 14 January 2013, Falcon announced that, further to its announcement of 31 July 2012, TXM had executed an agreement with NIS in relation to a significant exploration program (“**the NIS Transaction**”). Under the terms of the NIS Transaction, NIS agreed to drill three exploration wells to target the Algyö Play. NIS made a cash payment of \$1.5 million to Falcon and agreed to drill three exploration wells by July 2014. NIS will earn 50% of net production from the first three wells, and has the option to acquire a right of first negotiation in any future drilling, after paying Falcon \$2.75 million. Falcon is to be fully carried on the drilling and testing of the three exploration wells. Under the terms of the NIS Transaction, Falcon retains 100% interest in the Deep Makó Trough.

On 21 January 2013, the Group announced the completion of the acquisition of 2D seismic data by Hess over the Hess Area of Interest in the Beetaloo Basin, Northern Territory, Australia. During 2011 and 2012, Hess acquired 3,490 km of 2D seismic data at an estimated cost in excess of \$55 million, which is currently being interpreted. The regulator, the Northern Territory Department of Mines and Energy, has determined that the acquired seismic satisfies the work commitments for the three permits owned by Falcon Australia.

On 24 January 2013, the Group announced that an independent CPR carried out by RPS Energy estimated gross recoverable prospective resource (play level) potential for the Group’s Beetaloo Exploration Permits in Australia of 162 trillion cubic feet (“**Tcf**”) of gas and 21,345 million barrels of oil (“**Mmbo**”) of oil (P50), gross recoverable prospective gas resources in the Algyö Play of 568 billion cubic feet (“**Bcf**”) (P50) and gross recoverable contingent resources in the Deep Makó Trough of 35.3 Tcf of gas and 76.7 Mmbo of oil (P50), both in Hungary.

On 14 March 2013, the Group announced its application for admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange of the Company’s existing share capital.

On 23 March 2013, the Group announced that it had closed a conditional brokered private placement of an additional 120,381,973 common shares in the capital of Falcon to be issued at a price of Stg14 pence (CDN\$0.215) per share to raise gross proceeds of \$25 million (£16.9 million). Trading of Falcon’s common shares commenced on AIM and ESM on 28 March 2013.

## 4. BUSINESS DESCRIPTION

### General

Falcon is an international oil and gas company engaged in the acquisition, exploration and development of unconventional and conventional oil and gas assets. The Company’s interests are located in internationally diversified countries that are characterised by a high regional demand for energy and are close to existing infrastructure allowing rapid delivery of oil and gas to market. In each territory, the Company is partnered with a large, credible multinational energy company.

Falcon’s strategy is to leverage the Group’s expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the Board of Directors of Falcon (the “**Board**”) believes support the exploitation of unconventional oil and gas. Falcon seeks to add value to its assets by entering into farm-out arrangements with major oil and gas companies that will fully or partially carry Falcon through seismic and drilling work programmes. The Group’s principal interests are located in two major underexplored basins in Australia and South Africa and in Hungary, covering approximately 14.75 million gross acres in total.

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

## Summary of Operations

The following table summarises the principal oil and gas interests of the Group in Australia, South Africa and Hungary:

Assets (Country)	Interest (%)	Operator	Status	Area (km <sup>2</sup> )	Expiry
Exploration Permit EP-76 (Beetaloo Basin, Northern Territory, Australia)	72.7 <sup>(i)</sup>	Hess <sup>(iv)</sup>	Exploration	4,976.3	31 December 2013
Exploration Permit EP-98 (Beetaloo Basin, Northern Territory, Australia)	72.7 <sup>(i)</sup>	Hess <sup>(ii) (iv)</sup>	Exploration	11,412.1	31 December 2013
Exploration Permit EP-99 (Beetaloo Basin, Northern Territory, Australia)	72.7 <sup>(i)</sup>	Falcon Australia	Exploration	2,587.2	31 December 2013
Exploration Permit EP-117 (Beetaloo Basin, Northern Territory, Australia)	72.7 <sup>(i)</sup>	Hess <sup>(iv)</sup>	Exploration	9,218.3	31 December 2013
Technical Cooperation Permit, (Karoo Basin, South Africa)	100	Falcon	TCP	30,327.9	In Force <sup>(iii)</sup>
Makó Production Licence (Makó Trough, Hungary)	100	TXM	Production	994.6	21 May 2042

### Notes:

(i) Falcon owns 72.7% of Falcon Australia, which holds a 100% interest in the Beetaloo Exploration Permits. Of the remaining 27.3% of Falcon Australia, 24.2% is owned by Sweetpea, a wholly owned Australian subsidiary of PetroHunter Energy Corp. and 3.1% interest is held by others.

(ii) Falcon Australia retains operatorship in the Shenandoah-1 well and approximately 405 km<sup>2</sup> (approximately 100,000 acres) land around the Shenandoah-1 well-bore in exploration permit EP-98.

(iii) In compliance with the terms of the Technical cooperation permit ("TCP"), the Company submitted its application for an exploration permit in August 2010 prior to the moratorium being introduced in April 2011. Local counsel has confirmed that despite the TCP expiry date of October 2010 having passed, the Company's interests remain valid and enforceable.

(iv) Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty Ltd. ("Hess") in 2011.

## Beetaloo Basin, Northern Territory, Australia

### Overview

Falcon Australia, Falcon's 72.7% owned subsidiary, is the registered holder of four exploration permits, comprising approximately 7 million acres (approximately 28,000 km<sup>2</sup>) in the Beetaloo Basin, Northern Territory, Australia. The Beetaloo Basin is located 600 kilometres south of Darwin close to infrastructure including a highway, two pipelines and a railway, offering transport options to the Australian market and beyond via the existing and proposed LNG capacity in Darwin.

The Beetaloo Basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Basin covers approximately 8.7 million acres (approximately 35,260 km<sup>2</sup>) and is a relatively underexplored onshore exploration basin with, as far as the Company is aware, 11 exploration wells drilled in the Beetaloo Basin to date. The area is remote and sparsely populated and the Board believes that it is well suited for oil and gas projects. Australia has a developed resources industry with a stable political, legal and regulatory system.

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

### Exploration Permits

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

In April 2011, Falcon Australia entered into a joint venture with Hess whereby Hess agreed to collect seismic data over an area made up of three of the four Beetaloo Exploration Permits, excluding exploration permit EP-99 and an area within exploration permit EP-98 (the Shenandoah-1 well and approximately 100,000 acres (approximately 405 km<sup>2</sup>) of land around the well-bore), referred to as the Hess Area of Interest. Falcon Australia is the operator of exploration permit EP-99 and Hess is the operator of exploration permits EP-76, EP-98 and EP-117. Falcon Australia also retained operatorship in the Shenandoah-1 well and approximately 100,000 acres (approximately 405 km<sup>2</sup>) of land around the Shenandoah-1 well-bore within exploration permit EP-98. The work commitments for the Beetaloo Exploration Permits

held by Falcon Australia have been met for previous years, with the exception of exploration permit EP-99, on which an extension was granted to 31 December 2013. In September 2012, Falcon Australia obtained Northern Territory Department of Resources approval for a 12 month extension of the Beetaloo Exploration Permits until 31 December 2013.

In accordance with local law and regulations, all Falcon Australia's acreage interests are subject to royalties on production values of up to approximately 12% to government and native title holders/claimants and up to approximately 13% to other parties. In addition, Falcon Australia is subject to Commonwealth Government corporation tax of 30%, and to the Commonwealth Government's Petroleum Resource Rent Tax ("PRRT") levied at the rate of 40% on the taxable profits derived from the petroleum projects. The PRRT is calculated on the individual projects and royalties are deductible for PRRT purposes. The PRRT tax system is separate from the company income tax system and is based on cash flow. Both royalties and PRRT are deductible for corporate income tax purposes.

### ***Discoveries and Prospectivity***

The Board believes that the Beetaloo Basin is relatively under-explored and has shale oil, shale gas and BCGA ("basin centered gas accumulations") potential. As far as the Company is aware, 11 wells have been drilled in the Beetaloo Basin to date. This work was undertaken by a Rio Tinto Group subsidiary company exploring for conventional hydrocarbons and while not leading to a conventional development, the data from the cores demonstrated the presence of tight oil and gas and several horizons were shown to be prospective for unconventional oil and gas.

There are no existing fields but there are numerous mudlog and core oil and gas shows throughout the Beetaloo Basin in prospective formations. The Shenandoah-1 well was a vertical hole well drilled by Sweetpea in 2007. The well was deepened by Falcon Australia in 2009 to finish at 2,714 metres. It was re-entered in Quarter 3 2011 and five short tests were conducted including several fracking operations. Gas was recovered from three zones with some liquids.

### ***Current activity***

Since the signing the E&P Agreement with Hess, Hess has acquired 3,490 kilometres of 2D seismic data at an estimated cost in excess of \$55 million. The 2D seismic data is currently being processed and interpreted. Hess has the option, valid until 30 June 2013, to acquire a 62.5% working interest in the Hess Area of Interest by committing to drill and evaluate five exploration wells at Hess' sole cost, one of which must be a horizontal well. All costs to plug and abandon the five exploration wells will also be borne solely by Hess. The Board estimates that the gross costs associated with the five-well programme will be approximately \$75 million. Hess has agreed, subject to proceeding to the development phase, to carry Falcon Australia, on the first development well, up to a gross cost of \$10 million, which the Board believes will be the total gross cost of this well. Costs to drill wells after the five exploration wells and the first development well (and after the initial \$10 million) will be borne 62.5% by Hess and 37.5% by Falcon Australia.

Under the minimum work commitments for exploration permit EP-99, Falcon Australia must spend a minimum of \$1.5 million by 31 December 2013 in collecting 2D seismic data on the underlying acreage within exploration permit EP-99. Falcon Australia is currently finalising a 2D seismic acquisition programme for exploration permit EP-99 in order to meet this requirement in 2013. This 2D seismic data is expected to provide the necessary information to plan a potential well programme in the coming years.

Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources. Falcon Australia has received expressions of interest from a number of third parties regarding a possible farm-out arrangement on the combined area outside of the Hess Area of Interest comprising exploration permit EP-99 and approximately 100,000 (approximately 405 km<sup>2</sup>) acres around the Shenandoah-1 well, measuring approximately 739,388 acres (approximately 2,992 km<sup>2</sup>) in total. The Board estimates that the gross costs associated with the initial drilling programme on the combined area outside of the Hess Area of Interest will be between \$25-\$50 million.

## **Karoo Basin, South Africa**

### ***Overview***

The Company holds a Technical Co-operation permit ("TCP") covering an area of approximately 7.5 million acres (approximately 30,327 km<sup>2</sup>), in the southwest Karoo Basin, South Africa, which grants the Company exclusive rights to apply for an exploration right over the underlying acreage. In August 2010, the Company submitted an application to the Petroleum Agency of South Africa for an exploration right over the acreage covered by the TCP and, as part of the application process, the Company submitted an environmental management plan in January 2011.

On 1 February 2011, the Minister of Mineral Resources (the "Minister") published a notice in the Government Gazette declaring a moratorium on the processing of all new applications relating to the exploration and production of shale gas in the Karoo Basin. This moratorium did not extend to existing applications, such as Falcon's, that were submitted prior to 1 February 2011. In April 2011, the Minister announced a further moratorium, which was not officially declared in terms of a notice in the Government Gazette, prohibiting all new applications and suspending the processing of all pending

application whilst the South African Department of Mineral Resources conducted an environmental feasibility study on the effects of hydraulic stimulation and developed a system to regulate onshore exploration activities (the “**Undeclared Moratorium**”). The undeclared moratorium has no legal effect since it is a requirement of the South African petroleum legislation that all such moratoriums be published in the Government Gazette. In September 2012, the South African Government announced a decision to lift the undeclared moratorium on shale gas exploration. The Minister has indicated that although the Undeclared Moratorium has been “lifted”, pending exploration right applications will not be processed and awarded until the regulations regarding hydraulic fracturing have published. These regulations are expected to be published in Quarter 2 2013. Consequently, the Board expects that the exploration right over the acreage will be awarded in the second half of 2013.

The South African Government is entitled to a royalty on the sale of mineral resources of up to 7% of gross sales (in the case of unrefined resources) and 5% of gross sales (in the case of refined resources, such as oil and gas). The Liquid Fuels Charter provides that an oil and gas company must reserve not less than 9% for Historically Disadvantaged South Africans (“**HDSA**”) to buy-in to any offshore production right granted. On the advice of South African counsel, the Board believes that the HDSA buy-in will also apply to onshore production rights in South Africa, including any right granted pursuant to the TCP. Similarly, the State has an option to acquire an interest of up to 10% in any production right granted. However, it is not required to pay any consideration for its 10% interest or contribute to past costs, but must contribute *pro rata* in accordance with its interest towards production costs going forward.

Corporation tax in South Africa is imposed at a rate of 28% of taxable income. Dividends tax is imposed on the shareholder at a rate of 15%.

### ***Discoveries and Prospectivity***

In its entirety, the Karoo Basin is approximately 173 million acres (approximately 700,000 km<sup>2</sup>) in size located in central and southern South Africa and contains thick, organic rich shales such as the Permian Whitehill Formation. The Karoo describes a geological period lasting some 120 million years and the rocks laid down during that period of time, covering the late Paleozoic to early Mesozoic interval. These were deposited in a large regional basin and resulted in the build-up of extensive deposits.

Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting in very limited modern hydrocarbon exploration onshore in South Africa. In an independent report dated April 2011, the U.S. Energy Information Administration (“**EIA**”) estimated that there are 485 Tcf technically recoverable resources in the Karoo Basin which would rank it fifth in the world after China, USA, Argentina and Mexico for shale gas potential. In particular the Permian Ecca group contains three potential shales identified as having potential for shale gas. The shale in the Whitehall Formation, in particular, is ubiquitous, has a high organic content and is thermally mature for gas.

### ***Current activity***

In December 2012, Falcon entered into an exclusive cooperation agreement with Chevron to jointly seek unconventional exploration opportunities in the Karoo Basin. The Chevron Agreement provides for Falcon to work exclusively with Chevron for a period of five years to jointly seek to obtain exploration rights in the Karoo Basin subject to the parties mutually agreeing participation terms applicable to each right. As part of the Chevron Agreement, Chevron made a cash payment to Falcon of \$1 million in February 2013 as a contribution to past costs.

## **Makó Trough, Hungary**

### ***Overview***

Falcon has been active in the Makó Trough since 2005 when it acquired two exploration licences, the Makó and the Tisza exploration licences. Between 2005 and 2007, Falcon pursued a work programme consisting of the acquisition of 1,100 km<sup>2</sup> of 3D seismic data and a six-well drilling programme. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. In 2007, Falcon’s subsidiary, TXM, was awarded the 35-year Makó Production Licence which covers some of the acreage originally covered by the Makó and the Tisza exploration licences.

Hungary is an established oil and gas producing country. The Makó Production Licence is in the vicinity of the largest producing field in Hungary, the MOL Group owned and operated Algyő field, which has produced approximately 2.5 Tcf and 220 Mmbo to date. The Makó Production Licence is located approximately ten kilometres to the east of the MOL Group owned and operated Algyő field and is transected by existing gas pipelines and infrastructure, including a 12 kilometre gas pipeline built by Falcon in 2007, together offering transport and potential access to local markets and larger distribution centres for international markets.

### ***Makó Production Licence***

The Makó Production Licence was granted by the Hungarian Mining Authority over a gas exploration project in the Makó Trough, located in south-eastern Hungary. The lands within the Makó Production Licence were formerly part of the Group's two hydrocarbon exploration licences – the Tisza exploration licence and the Makó exploration licence.

The Makó Production License covers approximately 245,775 acres (approximately 1,000 km<sup>2</sup>) and is held 100% by TXM, a wholly owned subsidiary of the Group. Under the terms of the Makó Production Licence, the Group is obliged to pay a 12% royalty to the Hungarian Government on any unconventional production and has a further 5% royalty payable under an agreement with Prospect Resources Inc., the previous owners of the acreage covered by the Makó Production Licence. Corporate profits are taxed at 19%. In 2009, an additional profit based energy industry tax, levied on energy supplying companies, was introduced. The rate was originally set at 8% but, as part of Hungary's third package of austerity measures, the rate has increased to 31% from 2013, with deductions allowable for certain capital expenditures. TXM is the operator and there are no outstanding work commitments on the Makó Production Licence.

### ***Discoveries and Prospectivity***

The Makó Trough contains two plays:

- a play targeting gas prospects in the shallower Algyő Play at depths between 2,300 metres and 3,500 metres; and
- a deeper unconventional play targeting significant contingent resources in the Deep Makó Trough.

#### ***The Algyő Play***

The Algyő Play is a relatively shallow play of between 2,300 and 3,500 metres. A number of Falcon wells have been drilled through the Algyő Play in recent years, some of which encountered gas shows, but to date none of these wells tested the shallow play concept at an optimal location, as these wells targeted the Deep Makó Trough, at intervals of up to 6,000 metres. Multiple Algyő prospects have subsequently been identified by the Group through extensive AVO analysis, and 3D seismic data has shown the presence of possible gas zones above the Szolnok formation (part of the Deep Makó Trough). In total, ten prospects have been identified within the Algyő Play from which RPS Energy, in its independent CPR, estimates eight prospects contain gross unrisks recoverable prospective gas resources of 568 billion cubic feet ("Bcf") (P50).

In January 2013, Falcon agreed to a drilling exploration programme with NIS to target the Algyő Play, whereby NIS made a cash payment of \$1.5 million to Falcon in February 2013, and agreed to drill three exploration wells by July 2014. NIS will earn, after undertaking the three-well drilling obligation, 50% of the net production revenues from the three wells drilled. The Board estimates that the gross costs of the three-well drilling programme will be approximately \$21 million. In addition, NIS will have an option to acquire a right of first negotiation for future drilling operations in the Algyő Play, sharing any potential future costs and revenue with the Group, on terms to be negotiated, after paying Falcon \$2.75 million. Falcon will be fully carried on the drilling and testing of three exploration wells and will retain 100% interest in the Deep Makó Trough.

#### ***The Deep Makó Trough***

This is a deeper unconventional play targeting gas, and to a lesser extent oil, in the low permeability and low porosity rocks in the deeper horizons of the basin. RPS Energy in its independent CPR estimates gross recoverable contingent resources for the Deep Makó Trough of 35.3 Tcf of gas and 76.7 Mmbo of oil (P50).

Between 2005 and 2007, Falcon acquired 1,100 km<sup>2</sup> of 3D seismic data and executed a six-well drilling programme on the Deep Makó Trough. Early exploration efforts focused on proving hydrocarbon potential and delineation of the basin in order to secure the Makó Production Licence. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. Several wells flowed gas on test and one well, the Magyarcsanád-1, tested light oil. The deepest well was the Makó-7 which, along with the Makó-4, was not tested. The Makó-7 results demonstrated the presence of a very large column of hydrocarbons in the well-bore. In 2007, Falcon constructed a 12 kilometre gas pipeline which connected the Makó-6 and Makó-7 wells with a MOL operated pipeline, offering potential access to local and international markets. The Company plans to re-enter the untested Makó-7 and Makó-4 wells and will seek a technically and financially capable partner to test and produce the shale gas and tight gas formations in the Deep Makó Trough. The Board estimates that the gross costs of re-entering and testing the Makó-7 and Makó-4 wells will be approximately \$25 million.

#### ***Current Activity***

Drilling preparations are already underway in the Algyő Play. NIS has informed the Company that it expects the first well to spud by the end of Quarter 2 2013 and the three-well drilling programme to be completed before the end of 2013.

## **Alberta, Canada**

For the 12 months ended 31 December 2012, Falcon had revenue of \$13,000 (2011: \$31,000) which was earned from non-operating working interests in three producing, and one recently shut-in, natural gas wells located in Alberta, Canada. Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred.

## **Employees**

As at 31 December 2012 and the date of this document, the Company has 15 employees (including Executive Directors), broken down as follows:

<b>Job Function</b>	<b>Budapest, Hungary</b>	<b>Dublin, Ireland</b>	<b>Total</b>
Management & Administration	4	5	9
Technical	6	-	6
<b>Total</b>	<b>10</b>	<b>5</b>	<b>15</b>

As at the date of this document, the Company employs 10 contractors, broken down as follows:

<b>Job Function</b>	<b>Hungary</b>	<b>Australia</b>	<b>Total</b>
Management & Administration	2	1	3
Technical	7	-	7
<b>Total</b>	<b>9</b>	<b>1</b>	<b>10</b>

## **Special skill & 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.

## **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.

## **Reorganisations**

During 2012 the Group relocated its corporate headquarters from Denver, Colorado to Dublin, Ireland. The finance and executive function moved to Dublin while the primary technical function shifted to the company's well established Hungarian office in Budapest where the company operates exploration and producing interests. In connection with that decision, all individuals and consultants in Denver were terminated with the exception of Mr. Evan Wasoff who remains with the company for a specified period to ensure the smooth and efficient transition of the finance function to Dublin. In its consolidated financial statements for the year ended 31 December 2012, the Company has recorded management's best estimate of the remaining expenses related to this restructuring, including severance and employee related benefits, certain share-based compensation expenses, acceleration of the recognition of certain future expenses and acceleration of the depreciation of certain assets. The Denver office closed on 28 September 2012.

## **Dependence on customers & suppliers**

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

## **Changes to contracts**

There is no aspect of the company's business, in which changes to contracts, would reasonably expect to affect in the current financial year.

## **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 2012 nor are they currently anticipated in the future.

During 2012, 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"* and *"Risk Factors"*.

### **Foreign operations**

The Group is dependent on its foreign operations. The Group's principal interests are located in Australia, South Africa and in Hungary covering approximately 14.75 million gross acres in total. As a percentage of costs capitalised as at 31 December 2012 for exploration and evaluation assets, 67% relate to Australia with 23% relate to Hungary.

### **Lending**

Falcon has not engaged in the preparation of formal lending or risk management policies or lending and investment restrictions. As at 31 December 2012 and the date hereof Falcon does not intend to lend to any third parties.

### **Companies with oil & gas activities**

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

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## Risk factors

The risks identified below (and as discussed in the Falcon's continuous disclosure documents), are those which the Board believes to be material in relation to the Group but these risks may not be the only risks faced by the Group. Additional risks, including those that the Board is unaware of or those that are currently deemed not to be material, may also result in decreased income, increased expenses or could result in a decline in the value of the Common Shares.

### (i). RISKS RELATING TO THE GROUP AND ITS BUSINESS

#### ***A decision by Hess not to exercise its option to acquire a 62.5% working interest in the Hess Area of Interest would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.***

Under the terms of the Hess Agreement, Hess has the option until 30 June 2013 to acquire a 62.5% working interest in the Hess Area of Interest, by committing to drill and evaluate five exploration wells at Hess' sole cost, one of which must be a horizontal well. In the event that Hess decides not to drill and evaluate five wells, its obligations under the Hess Agreement will cease and Falcon Australia will become responsible for 100% of any exploration and development costs of the Hess Area of Interest. If Falcon Australia were unable to secure participation by a new farm-in or joint venture partner for the development of the Hess Area of Interest by 31 December 2013, its ability to develop and realise its investment in the asset could be significantly curtailed. A decision by Hess not to exercise its option would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

#### ***The Group may not be able to get the necessary approvals to operate its business***

The Group might not be able to obtain necessary approvals from one or more Australian, South African or Hungarian 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; or commencing one or more wells.

##### *Australia*

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 (Commonwealth) 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 Beetaloo Exploration Permits. 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 Beetaloo Exploration Permits, there may be a material adverse effect on the Group's business, prospects, financial condition and results of operations.

##### *South Africa*

The processing of the company's South African application for an exploration right over the TCP acreage has been subject to delay as a result of a moratorium on shale gas exploration introduced in April 2011 by the South African Department of Mineral Resources. In September 2012, following the conclusion of a study on the effects of hydraulic stimulation and the development of a system to regulate onshore exploration activities, the moratorium as far as it relates to pending applications such as the company's application was "lifted".

However, it is expected that the company's exploration right application will only be finalised once regulations relating to hydraulic fracturing are published. These regulations are currently expected to be published in Quarter 2 2013. Should the publication of these regulations be delayed, the decision to award Falcon an exploration right over the acreage may be delayed or, the company may be required to resubmit an application or risk losing its exclusive right to obtain an exploration right over the TCP acreage. This could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

## *Hungary*

Hungarian government agencies have discretion in interpreting various laws, regulations, and policies governing operations under the Makó Production Licence. Further, the Group 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 Group to predict whether such agencies will act favourably toward the Group.

Neither the Makó Production Licence nor Hungarian mining laws grant reasonable use of the surface across the geographical area covered by the Makó Production Licence. 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 licensee cannot establish operations that meet their mutual agreement, a licensee may request and pay for an easement from the Hungarian government. The Hungarian government has discretion to interpret various requirements for the issuance of drilling permits, and there is no assurance that the Group will be able to meet all such requirements. Any inability of the Group to meet any such requirements could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***A decision by NIS, following the completion of the initial three well drilling programme in the Algyő Play, not to participate in any further drilling operations, would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.***

Under the terms of the NIS Agreement, NIS will earn 50% of the net production revenues from the initial three wells being drilled in the Algyő Play, and will have an option to acquire a right of first negotiation for future drilling operations in the Algyő Play, sharing any potential future costs and revenue with the Group, on terms to be negotiated. In the event that NIS decide not participate in any further drilling operations in the Algyő Play, Falcon will become responsible for 100% of any exploration and development costs in the Algyő Play under the Makó Production Licence. If the Group were unable to secure participation by a new farm-in or joint venture partner for the development of the Algyő Play, its ability to develop and realise its investment in the asset could be significantly curtailed. This could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***There is no guarantee that the Company has or will continue to have good title to assets.***

Although title reviews have been and will continue to be performed according to standard industry practice prior to the acquisition of all oil and gas assets or rights to acquire leases in prospects and assets or the commencement of drilling wells, such reviews do not guarantee or preclude that an unidentified or latent defect in the chain of title will not exist, or that a third party claim will not arise that burdens, diminishes or defeats the claim of the Company which could impact the Company's ability to realise its investment in a particular asset and could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group cannot be certain that it will continue to meet all requirements to maintain its permits and licences***

Falcon Australia is required to perform work programmes in order to maintain the Beetaloo Exploration Permits. In particular, under the minimum work commitments for exploration permit EP-99, Falcon Australia must spend a minimum of \$1.5 million by 31 December 2013 in collecting 2D seismic data within exploration permit EP-99. To the extent that the Group cannot fulfil its requirements under exploration permit EP-99, it may have to request an extension and/or may be at risk of losing this exploration permit.

Hungarian Mining Law requires that the Group file annual plans of development ("**Plans**") with regards to the Makó Production Licence. To the extent that the Group cannot fulfil the requirements, it might have to request extensions for filing a Plan or it may be at risk of losing rights under the Makó Production Licence. Alternatively, the Group may disagree with the government's interpretation of the legal requirements, in which case the Group may commence a legal proceeding, which could delay development of the Makó Production Licence. Failure to carry out any commitments within the currently required timeframes, or to successfully negotiate extensions to the time permitted to carry out these work plan commitments, could result in the Group losing those relevant interests and the associated resource potential therein and also restrict the ability to obtain new licences in the relevant jurisdictions. The Group's rights to exploit many of their oil and gas interests are limited in time. There is no guarantee or assurance that such rights can be extended or that new rights can be obtained to replace any rights that expire. Furthermore, as licence terms and commitments are typically set by governments, unexpected and significant changes to licence terms and commitments could significantly impact the value of those licences to the Group, which may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group is exposed to general business risks associated with its joint venture and other partners, in addition to their ability to perform their contractual obligations.***

Like other companies of its size, the development of the Group's business is substantially reliant on forming strategic relationships with other, larger companies in the oil and gas industry, such as it has with Hess (Australia), Chevron (South Africa) and NIS (Hungary). The Group has sought and is likely to continue to seek to involve both the financial resources and the technical expertise and experience of farm-out or joint venture partners to explore and develop some or all of its interests. However, these relationships involve surrendering certain economic and operational rights to such partners. As a result, the Company's return on assets operated by others depends upon a number of factors that may be outside of the Group's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

The Group will be exposed to the general risks associated with the businesses, operations and financial condition of its joint venture and other partners including, among other things, the risks of bankruptcy, insolvency, management changes, adverse change of control and natural disasters. There is also a risk that the Group 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 Group's partners to satisfactorily meet on a timely basis the agreed-upon commitments may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

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

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

- the success of the Group's exploration and development programme in Australia, South Africa and Hungary;
- success in locating new resources; and
- prevailing prices of oil and gas.

Additional financing sources may be required in the future to fund developmental and exploratory drilling. Issuing equity securities to satisfy the Group's financial requirements could cause substantial dilution to its existing Shareholders. Financing might not be available in the future or the Group might not be able to obtain necessary financing on acceptable terms. If sufficient capital resources are not available, the Group might be forced to curtail its activities or be forced to sell some of its interests on an untimely or unfavourable basis, which would have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The success of the Company's acquisition strategy is not guaranteed.***

Falcon's strategy is to leverage the Group's knowledge of and expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land, to build on its internationally diversified portfolio of unconventional interests. Returns ultimately achieved by investors in the Company will be reliant upon the quality and performance of the assets being acquired directly or indirectly by the Company. The success of the Company's strategy also depends on the Board's and management's ability to identify suitable assets, and their acquisition on favourable terms in order to generate value from those assets. No assurance is given that the strategy to be used will be successful under all or any market conditions or that the Company will be able to invest its capital directly or indirectly to acquire assets on attractive terms and to generate returns for investors. This could have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Company might not be able to identify liabilities associated with its licences which could cause the Group to incur losses.***

Although the Company believes it has reviewed and evaluated its assets in Australia and Hungary 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.

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

Although the Company believes that the CPR prepared by RPS Energy was in accordance with industry standards, the Company cannot be sure that the actual results will be as estimated. The CPR represents RPS Energy's best professional judgement and should not be considered a guarantee or prediction of results.

Further drilling and production testing of horizontal wells will be necessary before the Group is able to make an estimate of recoverable volumes in any of its assets and it is possible that such further drilling and production testing may not yield positive results.

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

The Group's future success depends primarily on the outcome of its exploration activities. These activities are subject to numerous risks beyond the Group's control, including the risk that it will not find any commercially productive oil or gas reservoirs. This is particularly true with respect to the exploration and development of oil and gas from unconventional reservoirs, such as shale gas, which relies on innovative and relatively expensive techniques and often involves exploration in areas where no proven reserves exist. The Group's decisions to purchase, explore, develop or otherwise exploit its interests 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;
- adverse weather conditions;
- lack of market demand for oil and gas;
- 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; or
- reductions in oil and gas prices.

The Group's future drilling activities might not be successful, and drilling success rate overall or within a particular area could decline. The Group could incur losses by drilling unproductive wells. Shut-in wells, curtailed production and other production interruptions may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***Market conditions or operation impediments may hinder the Group's access to oil and gas markets or delay any production in the future.***

The marketability of any future production from the Group's interests will depend in part upon the availability, proximity and capacity of pipelines, oil and gas gathering systems and processing facilities. This dependence is heightened where this infrastructure is less developed. The Group may also 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 Group would be unable to realise revenue from those wells until arrangements were made to deliver production to market. The Group's ability to produce and market oil and gas 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 oil and gas production including environmental protection, royalties,
- allowable production, pricing, importing and exporting of oil and gas;
- government transportation, tax and energy policies;
- changes in supply and demand for oil and gas; and
- general economic conditions.

Any change in such factors may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***Shortages of rigs, equipment, supplies and personnel could delay or otherwise adversely affect the Group's cost of operations or its ability to operate according to its business plans.***

From time to time, shortages of drilling and completion rigs, field equipment and qualified personnel could occur, resulting in sharp increases in costs. The demand for 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 Group's exploration and development operations, which may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

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

The Company depends to a large extent on the efforts and continued employment of the members of the Group's management team and certain board members. The loss of such services could adversely affect the Group's business operations. The success of the Group's operations depends on the Group'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 Group cannot retain these personnel or attract additional experienced personnel, its ability to compete in the geographic regions in which the Group conducts operations could be harmed and as a result it may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***The Group 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 Australia, South Africa and Hungary 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 Group, it might not be able to conduct its operations as planned, or at all. 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 Group to penalties. Compliance costs may be significant. Further, these laws and regulations could change in ways that substantially increase the Group's costs and associated liabilities. The Group cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations will not materially and adversely impact the Group's business, prospects, financial condition and results of operations.

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

The Company does not insure against all risks. It maintains insurance against various losses and liabilities arising from operations in accordance with customary industry practices and in amounts that Board 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 Group's business, prospects financial condition or results of operations. The Group's oil and gas exploration and production activities will be subject to hazards and risks associated with drilling for, producing and transporting oil and gas, and any of these risks can cause substantial losses resulting from:-

- environmental hazards, such as uncontrollable flows of oil, gas, brine, well fluids, toxic gas or other
- pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- 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 Group'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, this may materially and adversely impact the Group's business, prospects, financial condition 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 in order to offset the risk of losses if the other currencies increase in value; however, if other currencies decline in value compared to that hedged, 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.

## **(ii). RISKS RELATING TO THE GROUP'S INDUSTRY**

***Competition in the oil and gas industry is intense, and many of the Group's competitors have greater financial, technological and other resources than the Group does, which may adversely affect its ability to compete.***

The Group operates in the highly competitive areas of oil and gas exploration, development and acquisition with a number of other companies doing business in Australia, South Africa and Hungary. The Group faces intense competition

from both major and other independent oil and gas companies in the locations where the Group operates. Many of the Group's competitors have substantially greater financial, managerial, technological and other resources. These companies might be able to pay more for exploratory prospects than the Group's financial resources permit. To the extent competitors are able to pay more for assets than the Group is willing to pay, 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 Group's ability to explore for oil and gas prospects and to acquire additional assets in the future will depend upon its ability to successfully conduct operations, implement advanced technologies, evaluate and select suitable assets and consummate transactions in this highly competitive environment. This may have a material adverse effect on the Group's business, prospects, financial condition and results of operations.

***The Group has been an early entrant into new or emerging shale plays. As a result, its expectations regarding future drilling results in these areas are uncertain, and the value of its undeveloped acreage will decline if future drilling results are unsuccessful.***

The Group has been an early entrant into new or emerging shale plays in the areas in which it operates, particularly in Australia and South Africa. Although the Group believes that its early entry has provided it with certain competitive advantages, including having had a wider selection of available concessions to choose from, there is no guarantee that such competitive advantages can be maintained in the future as more competitors, many of whom are larger than the Group in size and operation, enter into these regions. Additionally, the Group's prospects and expectations regarding future drilling results in these emerging shale plays are more uncertain than they would be in areas that are developed and producing substantial quantities of oil or gas already. Since new or emerging shale plays have limited or no production history, the Group is unable to use past drilling results in those areas to help predict its future drilling results. As a result, the Group's risk on the costs of drilling, completing and operating wells in these areas may be higher and the value of the Group's undeveloped acreage will decline if future drilling results are unsuccessful, all of which may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***The environmental implications of certain technologies used in shale gas exploration activities are under scrutiny.***

The Group's activities involve exploring for shale gas utilising drilling and completion techniques, such as horizontal drilling and hydraulic fracturing, the environmental implications of which have been, and continue to be, subject to significant controversy and public debate. Given that these technologies are relatively new, their environmental implications may not be fully understood at present, and research into their effects is still ongoing. There has been speculation about, amongst other things, the possible effects of hydraulic fracturing on water aquifers (due to either the chemicals used in fracking fluids or gases released from the shales), contribution to seismic activity and disruption to local ecosystems. The controversy surrounding the environmental implications of shale gas exploration has led to opposition from significant sections of the public as well as certain legislative and regulatory initiatives aimed at restricting these activities. Further to the South African moratorium on shale gas exploration as announced in February 2011, similar initiatives have been introduced in a number of European countries (Bulgaria, France and Romania) and also in various regions of Canada and the United States. Any further restrictions on these activities in South Africa, or the introduction of such restrictions in any of the locations in which the Group operates (including a prohibition on hydraulic fracture stimulation), which make shale gas exploration and production currently unviable due to a lack of presently-existing alternative technologies, could prevent the Group from being able to profitably develop its interests.

Furthermore, if any of the Group's activities were found to have caused environmental damage in any of the locations in which it operates, it could be subject to significant liabilities and reputational damage. Even if no environmental damage were tied directly to the Group's activities, to the extent operations by other companies in the shale gas industry were found to have caused environmental damage or to the extent further research provides evidence of negative environmental implications of fracking or other aspects of shale gas exploration, public and political opposition to shale gas exploration may be further intensified and the Group's business could come under increasing legal and regulatory restrictions, all of which may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***A substantial or extended decline in oil and gas prices may adversely impact the Group's business, prospects, financial condition and results of operations.***

The Group's future revenues, operating results and rate of growth are substantially dependent upon the prevailing prices of, and demand for, oil and gas. Declines in the prices of, or demand for, oil and gas may adversely affect the Group's business, prospects, financial condition and results of operations. Lower oil and gas prices may also reduce the amount of oil and gas that the Group can produce economically. Historically, oil and gas prices and markets have been volatile and they are likely to continue to be volatile in the future. Oil and gas prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil and gas, market uncertainty and a variety of additional factors that are beyond the Group's control. Among the factors that could cause this fluctuation are:-

- change in global supply and demand for oil and gas;
- levels of production and other activities of the OPEC, and other oil and gas producing nations;

- weather conditions;
- the availability of transportation infrastructure;
- market expectations about future prices;
- the level of global oil and gas 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.

A substantial or extended decline in oil or gas prices may materially and adversely impact the Group's business, prospects, financial condition and results of operations.

***Political instability or fundamental changes in the leadership or in the structure of the governments in the jurisdictions in which the Group operates could have a material negative impact on the Group's business, prospects, financial condition and results of operations.***

The Group's interests may be affected by political and economic upheavals. Although the Group 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 significantly in the future.

Local, regional and world events could result in changes to the oil and gas, mining, tax or foreign investment laws, or revisions to government policies in a manner that renders the Group's current and future interests uneconomic could have a material adverse affect on the Group's business, prospects, financial condition and results of operations. Furthermore, there is also the risk of resource nationalisation, or the imposition of restrictions and penalties on foreign-owned entities which may materially impact the Group's business, prospects, financial condition and results of operations.

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

**(iii). RISKS RELATING TO THE COMMON SHARES**

***The Company's share price might be affected by matters not related to the Group's own operating performance for reasons that include the following:***

- general political and economic conditions in Australia, South Africa, Hungary, and globally;
- industry conditions, including fluctuations in the price of oil and gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and gas operations;
- geological, technical, drilling and processing problems;
- competition for, among other things, capital, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- investor perception of the oil and gas industry in general and of unconventional oil and gas exploration in particular;
- limited trading volume of the Common Shares; and
- announcements relating to the Company's business or the business of its competitors.

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 Group's business, prospects, financial condition and results of operations.

***Volatility of Share Price***

The market price of the Common Shares may be subject to fluctuations in response to many factors, including variations in the operating results of Falcon, divergence in financial results from market expectations, general economic conditions, legislative changes in the sector and other events and factors outside the Group's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and

political conditions, could adversely affect the market price for the Common Shares. The value of Common Shares may go down as well as up. Investors may therefore realise less than or lose all their original investment.

***Falcon is incorporated in British Columbia, Canada and, as such, is subject to Canadian company law.***

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.

***A disposal of Common Shares by major Shareholders could adversely impact the market price of Common Shares***

Sales of a substantial number of Common Shares in the market by major shareholders, or the perception that these sales might occur, could adversely impact the market price of the Common Shares.

***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.***

Falcon's Common Shares are traded on the TSX Venture Exchange (symbol: FO.V); AIM, the market operated by the London Stock Exchange (symbol: FOG) and ESM, the market regulated by the Irish Stock Exchange (symbol: FAC). These stock exchanges have 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.

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## 5. DIVIDENDS & DISTRIBUTIONS

Falcon has not declared any dividends on the Common Shares. Given the Group's current exploration and appraisal stage, the Board does not anticipate paying any dividends in the foreseeable future. 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.

## 6. DESCRIPTION OF CAPITAL STRUCTURE

### *Common Shares*

The following is a summary of the Company's outstanding share data at 31 December 2012:

<b>Class Of Securities</b>	<b>31 December 2012</b>
Common Shares <sup>(4)</sup>	696,954,500
Stock Options <sup>(3)</sup>	32,837,000
Private Placement Warrants <sup>(1)</sup>	65,287,500
Hess Warrants <sup>(2)</sup>	10,000,000

### Notes:

- (1) Warrants to purchase 65,287,500 Common Shares at a price of \$0.19 (CDN\$0.18/ CDN\$0.19) per Common Share were issued to shareholders in 2011 in connection with the Falcon Private Placement and expire in February and April 2014.
- (2) Warrants to purchase 10,000,000 Common Shares at a price of \$0.19 (CDN\$0.19) per Common Share were issued to Hess on 13 July 2011 in connection with the Hess transaction. The Hess Warrants are exercisable commencing on 14 November 2011, and expire on 13 January 2015.
- (3) Eoin Grindley (Chief Financial Officer) is, pursuant to his employment contract, entitled to 3,000,000 stock options.
- (4) On 14 March 2013 the Group announced its application for admission to trading on the AIM market of the London Stock Exchange (symbol: FOG) and the ESM market of the Irish Stock Exchange (symbol: FAC) of the Company's existing share capital and the additional 120,381,973 new common shares in the capital of the Company to be issued pursuant to the concurrent conditional brokered private placement of new common shares at a price of Stg14 pence (CDN\$0.215) per share to raise gross proceeds of \$25 million (£16.9 million). Dealings in these shares commenced on AIM and ESM on 28 March 2013.

Falcon is authorised to issue an unlimited number of Common Shares. 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*

On 30 June 2009 (the "**Subscription Date**"), Falcon entered into a trust indenture (the "**Trust Indenture**") between Falcon, and Computershare Trust Company of Canada (the "**Trustee**"). The Trust Indenture authorises the issuance of convertible debentures bearing an annual interest rate of 11% in an aggregate principal amount CDN\$100,000,000. Debentures may be issued in denominations of CDN\$1,000 and integral multiples thereof and will mature on 30 June 2013 (the "**Maturity Date**"). The outstanding principal amount of the Debentures, together with all outstanding and unpaid interest will become due and payable on the Maturity Date. The Debentures are unsecured direct obligations of the Company. In certain circumstances the Trust Indenture restricts the Company from incurring additional indebtedness (except for certain indebtedness permitted under the Trust Indenture) by borrowing money or from mortgaging, pledging or charging its property to secure any indebtedness. The Debentures are transferrable subject to compliance with the Trust Indenture and all regulatory requirements.

Each Debenture will be convertible into Common Shares at the option of the Debenture holder at any time prior to the close of business on the Maturity Date. The right to convert and the Conversion Price are subject to adjustment on the occurrence of certain events as set out in the Trust Indenture.

Falcon had a one-time option to redeem the Debentures which has expired. As at 31 December 2012, the face value of the convertible debentures, due on maturity at 30 June 2013, was \$10.8 million.

## 7. MARKET FOR SECURITIES

### Trading price and volume

Falcon's Common Shares are traded on the TSX Venture Exchange (symbol: FO.V); AIM, the market operated by the London Stock Exchange (symbol: FOG) and ESM, the market regulated by the Irish Stock Exchange (symbol: FAC).

The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate trading volume of the Common Shares on the TSXV<sup>(1)</sup>:

Period	High CDN\$	Low CDN\$	Trading volume
April 2013	0.22	0.185	6,335,562
March 2013	0.28	0.21	10,293,774
February 2013	0.315	0.225	10,882,406
January 2013	0.28	0.175	15,295,807
December 2012	0.22	0.17	6,345,202
November 2012	0.225	0.11	7,083,856
October 2012	0.23	0.185	7,178,150
September 2012	0.24	0.16	13,767,772
August 2012	0.16	0.14	4,645,921
July 2012	0.155	0.115	5,599,978
June 2012	0.13	0.11	3,484,051
May 2012	0.155	0.09	10,887,312
April 2012	0.10	0.08	4,017,699
March 2012	0.105	0.09	3,432,366
February 2012	0.12	0.10	3,098,675
January 2012	0.12	0.10	5,932,621

Notes:

(1) Data obtained from the TSVX.

(2) Up to and including the trading of the Common Shares on the close of business on Friday, 26 April 2013.

### Prior Sales

During the year ended 31 December 2012 the Company issued the following securities:

- In Quarter 3 2012, the Company issued 600,000 Common Shares at market value and subsequently in December 2012 issued 400,000 Common shares pursuant to exercises of stock options.
- In December 2012, the Company issued 300,000 Common Shares at market value to an ex-employee as compensation for his employment.

## 8. DIRECTORS & 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, business address, 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 56,528,055 common shares representing, as at 28 March 2013, approximately 6.92% of Falcon's issued and outstanding common shares.

The full names, functions and dates of appointment of the Directors are as follows:

<b>Name &amp; residence</b>	<b>Function</b>	<b>Business address</b>	<b>Date of appointment</b>	<b>Principal occupation during last 5 years</b>
John Craven, Dublin, Ireland (2) (3)	Non-executive Chairman	Styne House, Upper Hatch Street, Dublin 2, Ireland	22 December 2009	Director and CEO of Cove Energy plc
Philip O'Quigley, Dublin, Ireland	Chief Executive Officer	Styne House, Upper Hatch Street, Dublin 2, Ireland	25 September 2012	Finance Director, Providence Resources plc
Dr. György Szabó, Budapest, Hungary	Director and Co- Managing Director of TXM	Közraktár u. 30-32, H- 1093 Budapest, Hungary	24 April 2006	Consultant and Mining Bureau registered technical responsible person for TXM Oil & Gas Exploration Kft.
Daryl H. Gilbert, Calgary, Alberta, Canada (1)	Non-executive Director	Suite 2370, 440 – 2 <sup>nd</sup> Avenue SW, Calgary, Alberta T2P 5E9, Canada	21 September 2007	Independent Businessman
JoAchim Conrad, Cham, Switzerland (2) (3)	Non-executive Director	İstinye Mah. Darüşşafaka Cad., Seba Center No:45 Kat:4 Pk:34460, Sarıyer İstanbul, Turkey	6 October 2008	Managing Director of Gazprom Marketing and Trading GmbH
Gregory Smith, Calgary, Alberta, Canada (1)	Non-executive Director	4303-9 <sup>th</sup> Street SE, Calgary, Alberta T2G 3C8, Canada	22 December 2009	Chartered Accountant President of Oakridge Financial Management Inc. CFO of Maglin Site Furniture Inc. Director of Armistice Resources and TriWestern Energy Corp.
Igor Akhmerov, Kilchberg, Switzerland (1) (2) (3)	Non-executive Director	Claridenstrasse 22, CH- 8002 Zurich, Switzerland	21 September 2007; resigned 29 May 2008; re-elected 14 December 2010	Chief Executive Officer, Avelar Energy Group
David Harris Calgary, Alberta, Canada	Non-executive Director	27 Tuscany Hills Pt. NW, Calgary, Alberta T3L 2C7 Canada	25 September 2012	Proprietor of DGH International GeoConsulting
Eoin Grindley, Dublin, Ireland	Chief Financial Officer	Styne House, Upper Hatch Street, Dublin 2, Ireland	n/a	Senior management positions at Sandvik Mining
Daniel Bloch Toronto, Ontario, Canada	Corporate Secretary	Brookfield Place 181 Bay Street, Suite 1800, Box 754 Toronto, Ontario M5J 2T9, Canada	n/a	Partner at Aird & Berlis LLP, Toronto, Ontario, Canada

Notes:

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the corporate governance committee.

The Group also has a "nomination committee" and a "reserves committee". The composition of these committees is decided when these meetings are requested.

**John Craven:** *Non-Executive Chairman*

Mr. Craven has been Non-Executive Chairman of the Board since September 2011 and has over 35 years of experience in technical, commercial, financial and leadership roles at major international upstream oil companies and junior independents. John is currently CEO of Discover EXploration and his career has been noted for a series of successful new venture negotiations, the exploration of which led to major discoveries in Mozambique, Algeria, Colombia, offshore Ghana and Indonesia. Along with his co-directors, he led Ardmore Petroleum, Dana Petroleum, Petroceltic International and recently Cove Energy through the acquisition of major upstream assets and key exploration and developmental milestones. During this time Mr. Craven has been actively involved in corporate finance and was responsible for raising initial capital through private sources and floating Petroceltic International on the Irish Stock Exchange and Cove Energy on AIM. Mr. Craven holds an MSc in Petroleum Geology from the Royal School of Mines in London and an MBA from Queen's University in Belfast.

**Philip O'Quigley:** *Chief Executive Officer*

Mr. O'Quigley has been a member of the Board since September 2012 and has been Chief Executive Officer of Falcon since May 2012. Mr. O'Quigley brings 20 years' experience in senior management positions in the oil and gas industry. His career, which spans a number of London and Dublin listed exploration and production companies, includes experience working in countries such as Argentina, the United States, Algeria, the UK and Ireland. Most recently, he served as Finance Director for Providence Resources, an Irish oil and gas exploration and production company and he remains on the board of Providence Resources as a non-executive director. Mr. O'Quigley is a Fellow of the Institute of Chartered Accountants in Ireland and qualified as a Chartered Accountant with Ernst & Young in Dublin.

**Dr. György Szabó:** *Director*

Dr. Szabó has been a Director of Falcon since 2006. He has also previously served as Consultant and Mining Bureau Registered Technical Responsible Person for Falcon's wholly-owned subsidiary TXM. Dr. Szabó is a widely recognized authority in the Hungarian and international petroleum industry. In addition to being a university professor, Dr. Szabó has overseen the design and implementation of the deepest HP-HT well ever drilled in Hungary. In 1991 he was in charge of successful fire control and well abandonment operations by Hungarian teams in Kuwait. He was instrumental in the privatisation and the strategy related to the capitalisation and structure of Hungary's former national oil company (presently MOL Group), as well as the landmark listing of the company on domestic and international securities exchanges in 1995. Dr. Szabó graduated from Miskolc University and received a degree in petroleum engineering in 1963. He received his Ph.D. in 1975.

**Daryl H. Gilbert:** *Non-Executive Director*

Mr. Gilbert has been a member of the Board since September 2007 and is a Professional Petroleum Engineer with over 35 year's experience in both the Canadian and international oil and gas industries. Mr. Gilbert serves as a director of several energy related public entities in addition to Falcon including AltaGas Ltd. and Penn West Petroleum Ltd. He is also currently a Managing Director of JOG Capital Inc. a private equity oil and gas investment firm located in Calgary Alberta. The greater part of Mr. Gilbert's career was spent in the independent energy evaluation consulting sector. In 1979, he joined the predecessor oil and gas engineering and geological firm which became Gilbert Laustsen Jung Associates Ltd. ("GLJ") where he served as a Principal Officer beginning in 1988 and as President and Chief Executive Officer from 1994 through to his retirement from consulting in 2005. Mr. Gilbert has a BSc from the University of Manitoba in Civil Engineering and is a member of the Association of Petroleum Engineers, and Geoscientists of Alberta, the Society of Petroleum Engineers and the Society of Petroleum Evaluation Engineers.

**JoAchim Conrad:** *Non-Executive Director*

Mr. Conrad has been a member of the Board since October 2008 and is currently a Senior Advisor at Gazprom Germania GmbH and Managing Director of BosphorusGaz Corporation, Turkey, Istanbul (a 71 per cent. Gazprom owned company). With a strong track record in the European natural gas industry, he was formerly serving in the position as Managing Director of Gazprom Marketing and Trading GmbH (100 per cent. Gazprom owned) and as member of the group executive board of Elektrizitätsgesellschaft Laufenburg AG ("EGL"), a European energy trading company with its own energy producing assets listed on the Swiss stock exchange, 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 and gas corporation Wintershall. Mr. Conrad graduated with an Economics degree from Georg-August Universität, Germany, in 1992 focusing on Economics and Information Technology, Graduation in Artificial Intelligence.

**Gregory Smith:** *Non-Executive Director*

Mr. Smith has been a member of the Board and Chairman of the Audit Committee since December 2009 and is a Chartered Accountant and President of Oakridge Financial Management Inc., a provider of financial and management consulting services to private and public companies. He is also the CFO and a director 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 and chairman of the audit committee of Armistice Resources Corp and a director of a number of private corporations. He is a past director and audit committee chairman of a number of public and private resource corporations, including director and chairman of the audit committees of TriWestern Energy Inc., 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 Bachelor of Commerce degree from the University of Calgary.

**Igor Akhmerov: *Non-Executive Director***

Mr. Akhmerov has been a member of the Board since December 2010. He was also on the Board from September 2007 until May 2008. Mr. Akhmerov graduated from the Moscow Institute of Management in 1989, Wharton Business School in 1995, and Lauder Institute of Business and International Relations, also in 1995. From 1989 through 1993 Mr. Akhmerov worked at the Moscow office of Bain & Company, specialised in privatisation and banking. After graduation from Wharton Business School, Mr. Akhmerov joined the Boston office of Bain & Company. In 1998 Mr. Akhmerov returned to Russia and joined Sputnik Group, the largest Russian private equity investment group, as a partner. In 2001 he moved to TNK as First Vice President for planning, budgeting, investment governance, taxes, and reporting. From 2004 until 2006 he served as chief financial officer of Renova Group. He has served as Chief Executive Officer of Avelar Energy Group since 2007. Mr. Igor Akhmerov is also a non-executive member of the board of directors of Aiòn Renewables SpA, a leading player in the Italian solar market, since 24 September 2008.

**David Harris: *Non-Executive Director***

Mr. Harris has been a member of the Board since September 2012. Since 2010 Mr. Harris has operated as the sole proprietor of DGH International GeoConsulting (“**DGH**”). DGH has been involved in a wide variety of projects, ranging from brief opinion letters on investment opportunities to the assessment of the unconventional potential of various countries, to detailed technical assessments of farm-in opportunities and acquisitions. These have been done for Investment Banks, Energy Research Firms, private equity firms, boards of directors and management teams. Prior to this, Mr. Harris spent 22 years at GLJ Petroleum Consultants, where he held the roles of Senior Vice President, Senior Partner and director of the firm. His responsibility was oversight of the GeoSciences Group, which included 13 geologists, geophysicists and support staff. Mr. Harris holds a B.Sc. in Geology (with Honours) from University of Calgary (1981).

**Eoin Grindley: *Chief Financial Officer***

Eoin Grindley was appointed Chief Financial Officer of Falcon in July 2012. Eoin has over 20 years of financial management experience and has worked in senior management positions at Sandvik Mining and GE Energy. Mr. Grindley is a member of the Chartered Institute of Management Accountants since 1996, having graduated from Trinity College Dublin with a B.Sc (Management) in 1991.

**Daniel Bloch: *Corporate secretary***

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.

**Penalties & 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 or within 10 years prior to the date of this Annual Information Form, 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**

Mr. Daryl Gilbert was a director of Globel Direct, Inc. (“**Globel**”) which was the subject of cease trade orders issued by the Alberta Securities Commission (“**ASC**”) on 22 November 2002 and the British Columbia Securities Commission (“**BCSC**”) on 22 November 2002 for failure to file certain financial statements. Globel filed such financial statements and the cease trade orders were removed on 20 December 2002 and 23 December 2002, respectively. On 12 June 2007, Globel was granted protection from its creditors by the Court of Queen’s Bench of Alberta pursuant to the Companies’ Creditors Arrangement Act, which protection expired on 7 December 2007, following which the monitor was discharged on 12 December 2007 and a receiver/manager was appointed. Subject to the completion of matters relating to the wind-up of the administration of the receivership, the receiver was discharged on 3 September 2008. Globel has ceased operations, and as a result became the subject of cease trade orders issued by the ASC on 24 September 2008 and the BCSC on 30 September 2008 for failure to file certain disclosure documents. In October 2008, a statement of claim was

filed against the officers and directors of Global by that same lender alleging breach of fiduciary responsibilities leading to the failure of the company. This action was not pursued by the claimants, has not received leave of the court to proceed and is currently inactive.

Mr. Gregory Smith was a director of Sportsclick Inc. which was the subject of an order of the Supreme Court of Nova Scotia in July 2009 protecting it from proceedings by creditors pursuant to the Bankruptcy and Insolvency Act and appointed Ernst & Young Inc. as receiver.

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.

Other than is 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 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 BCA and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

#### **9. LEGAL PROCEEDINGS & REGULATORY ACTIONS**

The Company has not been involved in any legal proceedings during the financial year and as of 30 April 2013, no legal proceedings are contemplated.

#### **10. 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 1 January 2010.

#### **11. TRANSFER AGENT & REGISTRAR**

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada, 3rd Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9, Canada. Computershare Investor Services Plc acts as the depositary in the United Kingdom and is located at The Pavilions, Bridgewater Road, Bristol, BS99 6ZZ, United Kingdom.

#### **12. MATERIAL CONTRACTS**

Falcon has not entered into any material contracts in the last financial year or before the last financial year but is still in effect outside of the ordinary course of business. In addition, the Company has not entered into any material contracts in

the last financial year or before the last financial year but is still in effect in the ordinary course of business as defined in National instrument 51-102, 12.2 (2).

### **13. INTERESTS OF EXPERTS**

#### **Names of experts**

The names of the experts are as follows:

- Charles W. Chapman, co-author of the 51-101F2 Report, Chapman Petroleum Engineering Ltd, 445, 708-11<sup>th</sup> Avenue S.W., Calgary, Alberta, T2R 0E4, Canada;
- KPMG LLP, the Company's auditors, 2700-205 5<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 4B9, Canada;
- RPS Energy author of the RPS 2013 Report, 411N. Sam Houston Parkway E., Suite 400 Houston, TEXAS 77060-3545, U.S.A; and
- Ryder Scott, author of the Beetaloo Report, 1100 Louisiana, Suite 3800, Houston, Texas, 77002, U.S.A.

#### **Interests of experts**

Charles W. Chapman, RPS Energy, 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 Group and have confirmed that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation up to the date of their auditors' report (12 April 2013).

### **14. 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 31 December 2012.

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 24 August 2012.

**[End of document]**