FALCON OIL & GAS LTD.

(A Development Stage Company)

Interim Consolidated Financial Statements

Three Months Ended March 31, 2009 and 2008

(Presented in U.S. Dollars)

FALCON OIL & GAS LTD.
(A Development Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
(U.S. Dollars, in thousands, except share and per share amounts)
(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 27,121	$ 25,547
Amounts receivable (Note 4)	8,794	16,134
Prepaids and other	952	1,537
Inventory available for sale	6,852	6,852
Total current assets	43,719	50,070
Property and equipment		
Petroleum and natural gas properties (Note 3)	237,757	237,020
Pipeline and facilities	3,888	3,888
Furniture and equipment, net	2,303	2,343
Total property and equipment	243,948	243,251
Other assets	11,164	11,150
Total Assets	$ 298,831	$ 304,471
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 14,667	$ 17,996
Asset retirement obligations (Note 5)	5,370	5,285
Total liabilities	20,037	23,281
Commitments and contingencies (Notes 1 & 11)		
Shareholders' equity (Notes 6 & 7)		
Share capital	331,179	331,179
Contributed surplus	25,397	24,005
Deficit accumulated during development stage	(77,782)	(73,994)
Total shareholders' equity	278,794	281,190
Total liabilities and shareholders' equity	$ 298,831	$ 304,471

Subsequent events (Note 12)

On behalf of the Board:

"David Fisher"____________________,Director **"Stephen Schultz"_________________, Director**

The accompany notes are an integral part of these interim consolidated financial statements.

FALCON OIL & GAS LTD.
(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(U.S. Dollars, in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended March 31, 2009	2008
Petroleum revenue	$ 11	$ 19
Direct costs		
Production costs	1	7
Depreciation, depletion and accretion	92	94
	93	101
Costs and expenses		
Accounting	103	124
Depreciation and amortization	108	103
Consulting	523	345
Director fees	66	67
Investor relations	164	160
Legal costs	312	433
Office and administrative	636	529
Payroll and related costs	735	674
Stock based compensation	1,392	1,382
Travel and promotion	328	465
	4,367	4,282
Other income (expense)		
Interest income	152	401
Gain (loss) on foreign exchange	496	(412)
Other income (expense)	13	-
	661	(11)
Net loss and comprehensive loss	$ (3,788)	$ (4,375)
Net loss per common share – basic and diluted	$ (0.006)	$ (0.008)
Weighted average number of common shares outstanding – basic and diluted	595,799,301	565,199,193

The accompany notes are an integral part of these interim consolidated financial statements.

FALCON OIL & GAS LTD.

(A Development Stage Company)

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(U.S. Dollars, in thousands, except share and per share amounts)

(Unaudited)

	Shares	Share Capital	Contributed Surplus	Deficit Accumulated During Development Stage
January 1, 2009	595,799,301	$ 331,179	$ 24,005	$ (73,994)
Stock based compensation	-	-	1,392	-
Net loss	-	-	-	(3,788)
March 31, 2009	595,799,301	$ 331,179	$ 25,397	$ (77,782)

The accompany notes are an integral part of these interim consolidated financial statements.

FALCON OIL & GAS LTD.
(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. Dollars, in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended March 31, 2009	2008
Cash flows from operating activities		
Net loss	$ (3,788)	$ (4,375)
Adjustments to reconcile net loss to net cash used in operating activities		
Stock based compensation	1,392	1,382
Depreciation, depletion and accretion	200	197
Unrealized foreign exchange (gain) loss	(496)	412
Changes in non-cash working capital accounts		
Amounts receivable	5,988	604
Prepaids and other	396	(75)
Accounts payable and accrued expenses	(854)	(881)
Net cash provided by (used in) operating activities	2,838	(2,736)
Cash flows from investing activities		
Restricted deposits	-	192
Petroleum and natural gas properties	(1,037)	(13,268)
Pipeline and facilities	-	(17)
Property and equipment	(68)	(337)
Net cash used in investing activities	(1,105)	(13,430)
Cash flows from financing activities		
Offering costs	(14)	-
Effect of exchange rate on cash and cash equivalents	(145)	(1,468)
Net decrease in cash and cash equivalents	1,574	(17,634)
Cash and cash equivalents, beginning of period	25,547	55,992
Cash and cash equivalents, end of period	$ 27,121	$ 38,358

The accompany notes are an integral part of these interim consolidated financial statements.

FALCON OIL & GAS LTD.
(A Development Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(U.S. Dollars, in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended March 31, 2009	2008
Supplemental schedule of cash flow information:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Petroleum and natural gas property costs in accounts payable	$ 329	$ 2,409

The accompany notes are an integral part of these interim consolidated financial statements.

NOTE 1 – ORGANIZATION

Falcon Oil & Gas Ltd. ("Falcon"), incorporated under the laws of British Columbia on January 18, 1980, is considered a development stage company as defined by Canadian Institute of Chartered Accountants Accounting Guideline No. 11. Falcon's operations are also conducted through its wholly owned subsidiaries: Mako Energy Corporation ("Mako"), a Delaware company, Falcon Oil & Gas USA, Inc. ("Falcon USA"), a Colorado company, TXM Oil and Gas Exploration Kft., a Hungarian limited liability company doing business as TXM Energy, LLC ("TXM"), TXM Marketing Trading & Service, LLC ("TXM Marketing") a Hungarian limited liability company, FOG-TXM Kft. ("FOG-TXM"), a Hungarian limited liability company, JVX Energy S.R.L. ("JVX"), a Romanian limited liability company and Falcon Oil & Gas Australia Pty. Ltd. ("Falcon Australia"), an Australian company (collectively the "Company").

The Company has producing petroleum and natural gas properties in Alberta, Canada and exploration projects in Hungary, Romania and Australia. All of the Company's exploration projects continue to be evaluated, and management believes that the carrying costs of these projects are recoverable. Should the Company be unsuccessful in these exploration activities, the carrying cost of these projects may be charged to operations.

The Company is in the business of acquiring, exploring and developing petroleum and natural gas properties which, by its nature, involves a high degree of risk, and there can be no assurance that current exploration programs will result in profitable operations. The recoverability of the carrying value of the petroleum and natural gas properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to obtain financing or, alternatively, upon the Company's ability to economically dispose of its interests. Certain of the Company's petroleum and natural gas properties are subject to the risks associated with foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and political uncertainty.

The recent events in the global financial markets have had a profound impact on the global economy. Virtually all industries, including the petroleum and natural gas industry, have been impacted by these market conditions, which have included: a sharp contraction in the credit markets resulting in a widening of credit risk spreads and higher costs of funding; a deterioration in the credit ratings of numerous financial institutions; devaluations and high volatility in global equity, commodity and foreign exchange markets with a corresponding lack of market liquidity; and a decline in the cycle that affects global economic activity. These events could have a significant impact on the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include Falcon and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for interim financial information using the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended December 31, 2008, except as noted below, and are presented in United States dollars. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality. These unaudited interim consolidated financial statements do not include all the information and note disclosures required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the Company's most recently reported annual audited consolidated financial statements.

(U.S. Dollars, in thousands, except share and per share amounts)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPARATIVE FIGURES

Certain comparative figures have been reclassified, where applicable, to conform to the current year's presentation. Such reclassifications had no effect on the Company's net loss in any of the periods presented.

ADOPTION OF NEW CANADIAN ACCOUNTING STANDARDS

(a) Goodwill and intangible assets

Effective on January 1, 2009, the Company adopted Section 3064 "Goodwill and intangible assets" ("Section 3064"). Section 3064 replaces Sections 3062 "Goodwill and other intangible assets" and Section 3450 "Research and development costs". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets including internally developed intangible assets. The adoption of Section 3064 did not have a significant effect on the Company's consolidated financial statements.

NEW CANADIAN ACCOUNTING STANDARDS

The Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants has issued new accounting standards that the Company is required to consider for adoption, as follows:

(a) International Financial Reporting Standards

The AcSB has determined that Canadian accounting standards for publicly-listed companies will converge with International Financial Reporting Standards ("IFRS") effective for interim and annual periods beginning on or after January 1, 2011. The adoption of IFRS in 2011 will require restatement for comparative purposes of figures presented for the 2010 fiscal year. The Company understands there may be differences between Canadian GAAP and IFRS, and is therefore monitoring this project with a view to understanding the possible future effects of the transition to IFRS.

NOTE 3 – PETROLEUM AND NATURAL GAS PROPERTIES

Interests in petroleum and natural gas proven and unproven properties include the following acquisition, exploration and development costs:

	Hungary	Canada	Romania	Australia	United States	Total
January 1, 2009	**$ 210,926**	**$ 74**	**$ 29**	**$ 25,991**	**$ -**	**$ 237,020**
Acquisition costs	-	-	15	81	-	96
Exploration costs	581	-		67	-	648
Development costs	-	-	-	-	-	-
Depletion and depreciation	-	(7)	-	-	-	(7)
March 31, 2009	**$ 211,507**	**$ 67**	**$ 44**	**$ 26 139**	**$ -**	**$ 237,757**

(U.S. Dollars, in thousands, except share and per share amounts)

NOTE 3 – PETROLEUM AND NATURAL GAS PROPERTIES (CONTINUED)

	Hungary	Canada	Romania	Australia	United States	Total
December 31, 2007	**$ 229,671**	**$ 134**	**$ -**	**$ -**	**$ -**	**$ 229,805**
Acquisition costs	-	-	29	25,890	748	26,667
Exploration costs	6,586	-	-	52	6,126	12,764
Development costs	-	(21)	-	-	-	(21)
Inventory available for sale	(3,675)	-	-	-	-	(3,675)
Asset retirement obligation	(340)	-	-	49	96	(195)
Impairment loss	-	-	-	-	(6,970)	(6,970)
Proceeds from ExxonMobil, net of costs	(21,316)	-	-	-	-	(21,316)
Depletion and depreciation	-	(39)	-	-	-	(39)
December 31, 2008	**$ 210,926**	**$ 74**	**$ 29**	**$ 25,991**	**$ -**	**$ 237,020**

HUNGARY

The Company holds a long-term Mining Plot (the "Production License") granted by the Hungarian Mining Authority. The lands within the Production License were formerly part of the Company's two petroleum and natural gas exploration licenses – the Tisza License and the Mako License (collectively, the "Exploration Licenses"). The Production License and the Exploration Licenses, covering approximately 575,700 acres, give the Company the exclusive right to explore for petroleum and natural gas on properties located within specified areas covered by each license in south central Hungary near the town of Szolnok. The Production License further gives the Company the exclusive right to commercially develop petroleum and natural gas within the area covered by that license. The Exploration Licenses expire on December 31, 2009, and are not eligible for extension. The Company is currently evaluating: (a) applications for one or more new exploration licenses that would include a portion of the lands currently included in the Exploration Licenses, and/or (b) an application to extend the boundaries of the Production License to include a portion of the lands currently included in the Exploration Licenses.

In April 2008, the Company entered into a Production and Development Agreement, as amended, (the "Agreement" or "PDA") with ExxonMobil Corporation affiliate Esso Exploration International Limited ("ExxonMobil") under which ExxonMobil became a joint owner with the Company of approximately 184,000 acres (the "Contract Area") in the Company's 246,000-acre long-term Production License in the Mako Trough. ExxonMobil originally acquired an undivided 67% working interest in the Contract Area under the terms of the Agreement. Pursuant to a pre-existing agreement between ExxonMobil and MOL Hungarian Oil and Gas Plc. ("MOL"), a publicly traded Hungarian oil and gas company, and ExxonMobil's rights under the PDA, ExxonMobil assigned one-half of its interest to MOL. Consequently, the Contract Area is owned 33% by the Company, 33.5% by ExxonMobil, and 33.5% by MOL. ExxonMobil serves as Operator of the Contract Area. However, the Company's Hungarian subsidiary, TXM, remains as the registered owner of the Production License under the records of the Hungarian Mining Authority.

During May 2009, ExxonMobil reached total depth of 14,500 feet (4,421 meters) on the drilling of the Földeák-1 well, which is currently being evaluated for testing. This well is part of the Initial Work Program under the PDA. The primary focus of the Initial Work Program and the Földeák-1 well is to test the Szolnok Formation.

NOTE 3 – PETROLEUM AND NATURAL GAS PROPERTIES (CONTINUED)

AUSTRALIA

On September 30, 2008, the Company consummated the acquisition of an undivided 50% working interest in an aggregate 7,000,000 acre prospect in four Exploration Permits (the "Permits") in the Northern Territory, Australia (the "Beetaloo Basin") from non-arm's length parties, PetroHunter Energy Corporation and certain of its affiliates (collectively, "PetroHunter") pursuant to a Purchase and Sale Agreement.

On May 26, 2009, the Company entered into a Second Purchase and Sale Agreement (the "Second PSA") with PetroHunter for the acquisition of an additional undivided 25% working interest in the Beetaloo Basin project. Under the terms of the Second PSA, the principal consideration being paid by the Company for this acquisition is the exchange of the $5,000 note receivable from PetroHunter. See Note 8 below. In addition, the Company has agreed to pay certain vendors who had provided goods or services for the Beetaloo Basin, prior to the Company's acquisition of its 50% interest in September 2008, in exchange for inventory and operator bonds of approximately the same value, and has relinquished its rights to the unexpended testing and completion funds of approximately $874 as discussed below. The Second PSA also stipulates that, on closing of this transaction, the Company will become operator of the Beetaloo Basin project, and that PetroHunter and the Company will enter into an escrow agreement which will govern the release of all remaining Falcon common shares previously issued to PetroHunter. The closing of this transaction is subject to the fulfillment of certain closing conditions, as well as the receipt of all required regulatory approvals.

UNITED STATES

On October 31, 2008, the Company consummated the acquisition of an undivided 25% working interest in five wells, including the 40-acre tract surrounding each of the wells (collectively, the "Five Wells") from PetroHunter situated within PetroHunter's 20,000-acre Buckskin Mesa project (the "Buckskin Mesa Project") located in the Piceance Basin, Colorado, and to undertake a testing and completion program in respect of the Five Wells pursuant to the terms of the Purchase and Sale Agreement (the "Buckskin PSA"). Under the Buckskin PSA, the Company agreed to pay 100% of the first $7,000 of testing and completion work to be undertaken in connection with the Five Wells. After performance of the testing and completion work, the Company had up to 60 days to review and analyze the results, at which time it could either retain its 25% interest in the Five Wells and acquire no greater interest, or it could exercise an option (the "Buckskin Mesa Option") to acquire an additional undivided 25% working interest in the Five Wells (for a total of 50%) and an undivided 50% working interest in the remainder of the 20,000-acre Buckskin Mesa Project.

On February 24, 2009, the Company notified PetroHunter that it would not exercise the Buckskin Mesa Option. Of the $7,000 advanced to PetroHunter, approximately $874 has not been expended. The unexpended funds have been reflected as other assets in the accompanying consolidated balance sheets.

In accordance with the Second PSA entered into, the Company will reassign upon closing the undivided 25% working interest in the Five Wells to PetroHunter, and the Company will be relieved of all obligations related to the Five Wells, including reclamation and plugging and abandonment obligations.

(U.S. Dollars, in thousands, except share and per share amounts)

NOTE 4 – AMOUNTS RECEIVABLE

Amounts receivable at March 31, 2009 and December 31, 2008 is comprised of the following:

	2009	2008
Joint interest owners	$ 588	$ 6,541
Value added tax ("VAT") – Hungary	5,547	5,769
Goods and services tax ("GST") – Australia	2,510	2,500
GST – Canada	82	67
Sale of inventory available for sale	-	1,133
Other	67	124
	$ 8,794	$ 16,134

NOTE 5 – ASSET RETIREMENT OBLIGATIONS

At March 31, 2009, the estimated total undiscounted amount required to settle the asset retirement obligations was $6,875. Costs for asset retirement have been calculated assuming a 5.0% inflation rate. These obligations will be settled based on the estimated useful lives of the underlying assets, which extend up to 20 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of 6.5%. Changes to asset retirement obligations for the three months ended March 31, 2009 and the year ended December 31, 2008 were as follows:

	2009	2008
Asset retirement obligations – beginning of period	$ 5,285	$ 5,140
Liabilities incurred	-	145
Revisions to estimates	-	(339)
Liabilities settled	-	-
Accretion	85	339
Asset retirement obligations – end of period	$ 5,370	$ 5,285

NOTE 6 – SHARE CAPITAL

AUTHORIZED

The Company has authorized an unlimited number of common shares, without par value.

WARRANTS

A summary of the number of common shares reserved pursuant to the Company's outstanding share purchase warrants for the three months and year ended March 31, 2009 and December 31, 2008 is as follows:

	2009	2008
Balance, beginning of period	4,288,750	8,518,150
Underwriters warrants	-	-
Warrants exercised	-	(1,711,250)
Warrants expired	-	(2,518,150)
Balance, end of period	4,288,750	4,288,750

(U.S. Dollars, in thousands, except share and per share amounts)

NOTE 6 – SHARE CAPITAL (CONTINUED)

Common shares reserved for share purchase warrants outstanding as of March 31, 2009, are as follows:

Number of Shares	Exercise Price	Expiry Date
4,288,750	$0.39 (CDN$0.40)	December 17, 2009

NOTE 7 – STOCK BASED COMPENSATION

The Company, in accordance with the policies of the TSX Venture Exchange ("TSX-V"), may grant options to directors, officers, employees and consultants, to acquire up to 10% of the Company's issued and outstanding common stock. The exercise price of each option is based on the market price of Falcon's common shares at the date of grant, which may be less a discount in accordance with TSX-V policies. The exercise price of all options granted has been based on the market price of Falcon's common shares at the date of grant, and no options have been granted at a discount to the market price. The options can be granted for a maximum term of five years. The Company records compensation expense over the vesting period based on the fair value of options granted. These amounts are recorded as contributed surplus. Any consideration paid on the exercise of these options is recorded as share capital together with the related contributed surplus associated with the exercised options. Of the options granted during the year ended December 31, 2008 (there were no grants during the three months ended March 31, 2009), all vest 20% at the date of grant, with the remainder vesting ratably at the anniversary date over the four years thereafter.

A summary of the status of the Company's stock option plan as of March 31, 2009 and December 31, 2008, and changes during the three and twelve months then ended, respectively, is presented below:

	2009		2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	46,950,000	$1.59	36,090,000	$1.90
Options granted	-	-	13,610,000	$1.09
Options exercised	-	-	-	-
Options expired/forfeited	(75,000)	$2.28	(2,750,000)	$3.16
Outstanding at end of period	46,875,000	$1.62	46,950,000	$1.59
Options exercisable at end of period	29,951,000	$1.38	29,986,000	$1.37

(U.S. Dollars, in thousands, except share and per share amounts)

NOTE 7 – STOCK BASED COMPENSATION (CONTINUED)

The following summarizes information about stock options outstanding and exercisable at March 31, 2009:

Options Outstanding	Options Exercisable	Exercise price	Weighted average remaining contractual life	Expiry date
15,500,000	15,500,000	0.25	1.00 years	April 2, 2010
2,450,000	2,450,000	0.50	1.56 years	October 21, 2010
10,289,000	6,173,400	3.98	2.10 years	May 7, 2011
4,951,000	2,970,600	2.83	2.69 years	December 9, 2011
600,000	240,000	0.54	3.38 years	August 17, 2012
1,000,000	200,000	0.98	4.10 years	May 6, 2013
12,085,000	2,417,000	1.19	4.18 years	June 5, 2013
46,875,000	29,951,000			

At March 31, 2009, the weighted average remaining contractual life of stock options outstanding is 2.37 years.

The weighted average fair value of the options granted during 2008 was $0.90; there were no options granted in the three months ended March 31, 2009.

The Company measures compensation costs using the fair value-based method for employee and non-employee stock options. Compensation costs have been determined based on the fair value of the options at the grant date, for employees, and at the balance sheet for non-employees using the Black-Scholes option-pricing model. The following assumptions were used for stock options granted during the three months ended March 31, 2008 (there were no grants during the three months ended March 31, 2009):

	2008
Expected term of options	3.50 years
Risk-free interest rate	3.381%
Annualized volatility	119.58%
Dividend rate	Nil
Estimated forfeiture rate	Nil

Stock based compensation expense for the three months ended March 31, 2009 of $1,392 (2008-$1,382) was recorded in the consolidated statements of operations.

Option-pricing models require the use of estimates and assumptions including the expected volatility of the Falcon's share price, the expected life of the option and the risk free interest rate. Changes in the underlying assumptions can materially affect the fair value estimates.

(U.S. Dollars, in thousands, except share and per share amounts)

NOTE 8 – RELATED PARTY TRANSACTIONS

Unless otherwise stated, transactions between related parties are measured at the exchange amount, being the amount of consideration agreed to between the parties.

In 2008 and 2009, the Company entered into certain agreements and transactions with PetroHunter, a related entity, whose largest single shareholder is also the President and CEO of the Company. The Company entered into agreements with PetroHunter to acquire working interests in the Beetaloo Basin and the Buckskin Mesa Project, and loaned PetroHunter $5,000 to pay certain vendors who rendered services on the Beetaloo Basin and Buckskin Mesa Project.

During the three months ended March 31, 2009, the Company incurred $45 (2008-$45) to a current director of the Company for advisory and consulting services rendered to TXM; and $36 (2008-$88) in consulting fees to a current director of the Company for advisory and consulting services rendered to Falcon.

NOTE 9 – SEGMENT INFORMATION

All of the Company's operations are in the petroleum and natural gas industry with its principal business activity being the acquisition, exploration and development of petroleum and natural gas properties. The Company has producing petroleum and natural gas properties located in Canada and considers the results from its operations to relate to the petroleum and natural gas properties. The Company has unevaluated petroleum and natural gas properties in Hungary, Romania and Australia. An analysis of the Company's geographic areas is as follows:

	Hungary	Canada	Romania	Australia	United States	Total
Three months ended March 31, 2009						
Revenue	$ -	$ 11	$ -	$ -	$ -	$ 11
Net income (loss)	(600)	(1,558)	-	(35)	(1,595)	(3,788)
As of March 31, 2009						
Capital assets	217,078	67	44	26,139	620	243,948

	Hungary	Canada	Romania	Australia	United States	Total
Three months ended March 31, 2008						
Revenue	$ -	$ 19	$ -	$ -	$ -	$ 19
Net income (loss)	722	(3,355)	-	-	(1,742)	(4,375)
As of March 31, 2008						
Capital assets	237,307	142	-	-	628	238,077

(U.S. Dollars, in thousands, except share and per share amounts)

NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Fair value

The fair value of financial instruments at March 31, 2009 and December 31, 2008 is summarized in the following table. Fair value estimates are made at the balance sheet date, based on relevant quoted market and other information about the financial instruments.

	March 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Held for trading				
Cash and cash equivalents	$ 27,121	$ 27,121	$ 25,547	$ 25,547
Loans and receivables				
Amounts receivable	8,794	8,794	16,134	16,134
Financial liabilities:				
Other financial liabilities				
Accounts payable and accrued liabilities	14,667	14,667	17,996	17,996

(b) Financial risk disclosures

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by Falcon's Board of Directors.

Credit Risk

The Company's credit risk is limited to cash and receivables. The Company maintains cash accounts at three financial institutions. The Company periodically evaluates the credit worthiness of financial institutions, and maintains cash accounts only in large high quality financial institutions, thereby minimizing exposure for deposits in excess of federally insured amounts. On occasion, the Company may have cash in banks in excess of federally insured amounts. The Company believes that credit risk associated with cash is minimal. Receivables are not significant to the Company. The Company's credit risk has not changed significantly from the prior year.

Liquidity Risk

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. The Company's overall liquidity risk has not changed from the prior year.

Currency Risk

Financial instruments that impact the Company's net income (loss) and comprehensive income (loss) due to currency fluctuations include Canadian dollar denominated cash and cash equivalents, and Hungarian Forint and Euro denominated cash and cash equivalents, accounts receivable, reclamation deposits, accounts payable, and capital commitments for Hungarian and Australian operations.

NOTE 10 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk

The Company is not exposed to interest rate risk as it has no outstanding borrowings or short term investments.

Fair Value Estimation

The carrying value less impairment provision, if necessary, of trade receivables and payables are assumed to approximate their fair values.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

(a) ENVIRONMENTAL

Petroleum and natural gas producing activities are subject to extensive environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefit are expensed. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

(b) CONTINGENCIES

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

NOTE 12 - SUBSEQUENT EVENTS

(a) On May 25, 2009, the Company filed a preliminary short form prospectus with the securities regulatory authorities in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia and New Brunswick in connection with a best efforts offering of units at a price of CDN$1,000 per unit (the "Offering"). Each unit consists of one 11% convertible unsecured debenture in the principal amount of CDN$900 (each, a "Debenture") that matures on the fourth anniversary of its issuance, and a certain number of common shares in the capital of Falcon (the "Unit Shares") (collectively a "Unit"). The Debentures contain certain automatic and optional conversion features, as well as certain redemption features.

The Offering will be conducted by Salman Partners Inc., as agent (the "Agent"). The Agent and members of any selling group will be paid a cash commission equal to 6.25% of the aggregate gross proceeds of the Offering, and will receive non-transferrable warrants (the "Agent Warrants") to purchase Falcon common shares at an amount equal to 6% of the sum of the Unit Shares and the shares issuable upon conversion of the Debentures. Each Agent Warrant will entitle the holder thereof to acquire one Falcon common share for a period of two years following the closing of the Offering. Final determination of the number of Units to be sold under the Offering and the number of Unit Shares to be issued will occur prior to the filing of the (final) short form prospectus in respect of the Offering.

NOTE 12 - SUBSEQUENT EVENTS (CONTINUED)

The Company expects to use the net proceeds from the Offering for development of the Mako Trough in Hungary and for general working capital, as determined and approved by the Falcon's Board of Directors. Closing of the Offering is expected to occur on or about June 16, 2009, and is subject to certain conditions including, but not limited to, receipt of all necessary securities regulatory approvals, including the approval of the TSXV. The Company has applied to list the Unit Shares, the shares to be issued upon exercise of the Agent Warrants, the Debentures and the shares issuable upon conversion of the Debentures, with the TSX-V.

(b) On May 26, 2009, the Company entered into the Second PSA with PetroHunter under which the Company acquired an additional undivided 25% working interest in the Beetaloo Basin project from PetroHunter, and reassigned to PetroHunter its undivided 25% working interest in the Five Wells within the Buckskin Mesa Project. *See* Note 3 above.