FALCON OIL & GAS LTD.

Interim Consolidated Financial Statements

Three Months Ended March 31, 2010 and 2009

(Presented in U.S. Dollars)

The interim consolidated financial statements which follow are prepared by management and are neither audited nor reviewed by the Company's auditor.

FALCON OIL & GAS LTD.
INTERIM CONSOLIDATED BALANCE SHEETS
(U.S. Dollars, in thousands)
(Unaudited)

ASSETS	March 31, 2010	December 31, 2009
Current assets		
Cash and cash equivalents	$ 9,192	$ 11,804
Restricted cash	631	1,184
Amounts receivable (Note 4)	2,008	2,955
Prepaids and other	385	720
Inventory available for sale	4,170	4,196
Total current assets	16,386	20,859
Property and equipment		
Petroleum and natural gas properties, net (Note 3)	208,889	207,889
Pipeline and facilities	3,888	3,888
Furniture and equipment, net	1,977	2,086
Total property and equipment	214,754	213,863
Other assets	9,016	8,277
Total assets	$ 240,156	$ 242,999

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

FALCON OIL & GAS LTD.
INTERIM CONSOLIDATED BALANCE SHEETS (CONTINUED)
(U.S. Dollars, in thousands)
(Unaudited)

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31, 2010	December 31, 2009
Current liabilities		
Accounts payable and accrued expenses	$ 2,671	$ 2,683
Long-term liabilities		
Convertible debentures (Note 5)	4,641	4,031
Asset retirement obligations (Note 6)	6,211	6,106
Total long-term liabilities	10,852	10,137
Total liabilities	13,523	12,820
Shareholders' equity (Note 7)		
Share capital	331,215	331,215
Contributed surplus	33,210	31,829
Equity component of convertible debentures	5,057	5,057
Deficit	(142,849)	(137,922)
Total shareholders' equity	226,633	230,179
Total liabilities and shareholders' equity	$ 240,156	$ 242,999

Going concern (Note 1)

Commitments and contingencies (Notes 1 & 12)

Subsequent event (Note 13)

On behalf of the Board:

"Gregory Smith" ____________________,Director **"Thomas Harris"_________________, Director**

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

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

	Three Months Ended March 31, 2010	2009
Petroleum revenue	$ 12	$ 11
Direct costs		
Production costs	4	1
Depreciation, depletion and accretion	108	92
	112	93
Costs and expenses		
General and administrative	2,796	2,867
Depreciation and amortization	119	108
Stock based compensation	1,381	1,392
	4,296	4,367
Other income (expense)		
Interest expense	(664)	-
Interest income	17	152
Gain (loss) on foreign exchange	73	496
Other income (expense)	43	13
	(531)	661
Net loss and comprehensive loss	(4,927)	(3,788)
Deficit, beginning of period	(137,922)	(73,994)
Deficit, end of period	$ (142,849)	$ (77,782)
Net loss per common share – basic and diluted	$ (0.008)	$ (0.006)
Weighted average number of common shares outstanding – basic and diluted	602,216,801	595,799,301

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

FALCON OIL & GAS LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. Dollars, in thousands)
(Unaudited)

	Three Months Ended March 31, 2010	2009
Cash flows from operating activities		
Net loss	$ (4,927)	$ (3,788)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Stock based compensation	1,381	1,392
Depreciation, depletion and accretion	227	200
Unrealized foreign exchange (gain) loss	(73)	(496)
Accretion of equity component of convertible debentures	316	-
Amortization of deferred financing costs	93	-
Changes in non-cash working capital accounts		
Amounts receivable	717	5,988
Prepaids and other	342	396
Inventory available for sale	26	-
Accounts payable and accrued expenses	292	(854)
Net cash provided by (used in) operating activities	(1,606)	2,838
Cash flows from investing activities		
Petroleum and natural gas properties	(1,350)	(1,037)
Furniture and equipment	(11)	(68)
Increase in other assets	(334)	-
Net cash provided by (used in) investing activities	(1,695)	(1,105)
Cash flows from financing activities		
Decrease in restricted cash	553	-
Offering costs	(99)	(14)
Net cash provided by (used in) financing activities	454	(14)
Effect of exchange rate on cash and cash equivalents	235	(145)
Net increase (decrease) in cash and cash equivalents	(2,612)	1,574
Cash and cash equivalents, beginning of period	11,804	25,547
Cash and cash equivalents, end of period	$ 9,192	$ 27,121

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

NOTE 1 – ORGANIZATION AND GOING CONCERN

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 (CICA) Accounting Guideline No. 11.

As of March 31, 2010, the Company has producing petroleum and natural gas properties in Alberta, Canada and exploration projects in Hungary and Australia. The Company's exploration projects in Hungary and Australia 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 prospects 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.

GOING CONCERN

For the three months ended March 31, 2010, the Company incurred a net loss of $4,927 and, as at March 31, 2010, had a deficit accumulated during the development stage of $142,849 and working capital of $13,715. The Company has been focused on securing equity financing and a joint venture partner for its operations in the Beetaloo Basin located in the Northern Territory, Australia, and a joint venture partner for its operations in the Makó Trough located in Hungary.

In the near term, the Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to fund its operations. Additional capital may be sought from existing shareholders and/or from the sale of additional common shares or other debt or equity instruments (See Note 13 below). There is no assurance such additional capital will be available to the Company on acceptable terms or at all.

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

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the consolidated financial statements. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include Falcon and 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 Limited ("Falcon Australia") (collectively "the Company"). All significant intercompany transactions and balances have been eliminated on consolidation.

The interim consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. The disclosures which follow are incremental to the disclosures included in the December 31, 2009 consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2009.

COMPARATIVE FIGURES

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

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	Australia	South Africa	Romania	Total
December 31, 2009	**$ 168,528**	**$ 47**	**$ 39,314**	**$ -**	**$ -**	**$ 207,889**
Acquisition costs	-	-	6	121	-	127
Exploration costs	604	-	272	-	-	876
Development costs	-	-	-	-	-	-
Depletion and depreciation	-	(3)	-	-	-	(3)
March 31, 2010	**$ 169,132**	**$ 44**	**$ 39,592**	**$ 121**	**$ -**	**$ 208,889**

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

NOTE 3 – PETROLEUM AND NATURAL GAS PROPERTIES (CONTINUED)

	Hungary	Canada	Australia	South Africa	Romania	Total
January 1, 2009	**$ 210,926**	**$ 74**	**$ 25,991**	**$ -**	**$ 29**	**$ 237,020**
Acquisition costs	-	-	5,734	-	16	5,750
Exploration costs	2,047	-	7,400	-	-	9,447
Development costs	-	(5)	-	-	-	(5)
Asset retirement obligation	394	-	189	-	-	583
Impairment loss	(45,000)	-	-	-	(45)	(45,045)
Other costs	161	-	-	-	-	161
Depletion and depreciation	-	(22)	-	-	-	(22)
December 31, 2009	**$ 168,528**	**$ 47**	**$ 39,314**	**$ -**	**$ -**	**$ 207,889**

The Company's Canadian properties are all proven and are subject to a ceiling test; the Company's properties in Hungary and Australia are unproven.

HUNGARY

TXM 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 TXM's two petroleum and natural gas exploration licenses – the Tisza License and the Makó License (collectively, the "Exploration Licenses"). The Production License, covering approximately 245,700 acres, gives TXM the exclusive right to explore for and appraise petroleum and natural gas on properties located in south central Hungary near the town of Szolnok. The Production License further gives TXM the exclusive right to commercially develop petroleum and natural gas within the area covered by that license.

The Exploration Licenses expired on December 31, 2009 and are not eligible for extension. However, under Hungarian laws applicable to oil and gas exploration licenses, the licensee has the first priority in obtaining a mining plot covering all or part of the area, but is not guaranteed that it will receive a mining plot. The process requires the filing of a "Closing Report" within six months from the expiration of the license, and the filing of an application for the mining plot within the second six-month period.

In October 2009, the Hungarian Mining Authority granted the Company's application to expand the depths under the Production License. When originally issued in May 2007, the upper depth of the Production License was defined as 9,186 feet (2,800 meters) from the surface, and extended to the basement of the Basin Centered Gas Accumulation (the "BCGA"). As a result of additional technical analysis, including extensive review of 3D seismic and the data obtained from the wells previously drilled within the Production License, the amended Production License now incorporates depths beginning at 7,546 feet (2,300 meters) throughout the entire Production License. This revision makes the Production License depth consistent with other mining plots in the immediate area.

NOTE 3 – PETROLEUM AND NATURAL GAS PROPERTIES (CONTINUED)

Agreement with ExxonMobil

On April 10, 2008, Falcon and TXM entered into a Production and Development Agreement (the "PDA"), as amended, with ExxonMobil Corporation affiliate Esso Exploration International Limited ("ExxonMobil") under which TXM and ExxonMobil became joint owners in a specified portion (the "Contract Area") of the Production License. Pursuant to a pre-existing agreement between ExxonMobil and MOL Hungarian Oil and Gas Plc. ("MOL"), and ExxonMobil's rights under the PDA, ExxonMobil sold one-half of its interest in the Contract Area to MOL, effective April 10, 2008. ExxonMobil, MOL and TXM also entered into a joint operating agreement (the "JOA"), dated April 10, 2008, governing operations not expressly addressed in the PDA. At that time, ExxonMobil became operator of the Contract Area under the JOA.

On October 30, 2009, Production Ventures East Hungary Kft., an affiliate of ExxonMobil ("Production Ventures"), completed certain operations on the Földeák-1 well, at which time the well was temporarily suspended. The conclusion of these operations was also the completion of the Initial Work Program, and the expenditure of Production Ventures' and MOL's $50 million financial obligation under the PDA. Production Ventures and MOL had 120 days from completion of the Initial Work Program to evaluate the results and, on February 19, 2010, provided notice that they would not proceed to the next phase of the PDA, the Appraisal Work Program, and would exit the PDA.

In accordance with the PDA, ExxonMobil's and MOL's respective participating interests in the Contract Area, the Földeák-1 well, and all other interests automatically reverted to TXM, and TXM became operator of the Contract Area.

AUSTRALIA

On December 7, 2009, Falcon and Falcon Australia entered into a Binding Heads of Agreement (the "Agreement") with PetroHunter Energy Corporation and Sweetpea Petroleum Pty Ltd ("Sweetpea"), PetroHunter's wholly owned subsidiary, (collectively "PetroHunter") wherein Falcon Australia will issue to Sweetpea common shares of Falcon Australia in consideration for the transfer of Sweetpea's undivided 25% working interest in an aggregate 7,000,000 acres in four exploration permits ("the Permits") in the Beetaloo Basin, Northern Territories, Australia. Under the terms of the Agreement, Falcon has been issued 150 million shares of Falcon Australia for conversion of a portion ($30,000) of Falcon Australia's debt payable to Falcon, which approximates Falcon's initial acquisition cost previously paid to Sweetpea for the 75% working interest in the Permits held by Falcon Australia as of the date of the Agreement, and Sweetpea has been issued 50 million shares of Falcon Australia for its remaining 25% working interest in the Permits.

On April 23, 2010, Falcon Australia received notice (the "Notice") from the Department of Resources, Northern Territory Government, that the registration of the transfer of the remaining 25% interest in the Permits was completed, satisfying all conditions precedent to closing. Pursuant to the Notice, Falcon Australia now owns 100% of the Permits.

Falcon and Falcon Australia will enter into a Master Services Agreement (the "MSA") related to the operations of the Permits. The MSA shall provide that Falcon Australia will be delegated sole authority and responsibility for all daily operations of the Permits. A monthly management fee shall be paid to Falcon out of the proceeds of a private placement of Falcon Australia shares of common stock (see Note 13) at a rate of $200 to $500 per month, commencing upon the raising of $10,000 in the Falcon Australia private placement. The term of the MSA will be for a period of one year, with any extension occurring upon mutual agreement.

At March 31, 2010 and December 31, 2009, Sweetpea owed Falcon Australia $1,800 for its share of joint interest billings to re-enter the Shenandoah-1 well. This amount is reflected in other assets in the accompanying 2010 and 2009 consolidated financial statements, and will be reclassified to petroleum and natural gas properties at closing as partial consideration for the acquisition by Falcon Australia of Sweetpea's remaining 25% working interest in the Permits.

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

NOTE 3 – PETROLEUM AND NATURAL GAS PROPERTIES (CONTINUED)

SOUTH AFRICA

On October 27, 2009, Falcon secured a Technical Cooperation Permit (the "TCP") to evaluate the Karoo Basin in central South Africa. Falcon has up to one year to conduct a technical appraisal of the area covered by the TCP, which does not include any well or seismic work obligations. At the end of the one year period, Falcon has the option to apply for an exploration license covering all or a portion of the TCP upon the payment of $400. The TCP covers approximately 7.5 million acres and is located approximately 120 miles northeast of Cape Town, South Africa.

NOTE 4 – AMOUNTS RECEIVABLE

Amounts receivable at March 31, 2010 and December 31, 2009 is comprised of the following:

	2010	2009
Joint interest owners	$ 273	$ 856
VAT – Hungary	1,007	961
GST – Australia	144	132
GST – Canada	46	38
Sale of inventory available for sale	-	350
Other	538	618
	$ 2,008	$ 2,955

NOTE 5 – CONVERTIBLE DEBENTURES

Convertible debentures at March 31, 2010 and December 31, 2009 are comprised of the following:

	2010	2009
Face amount	$ 9,272	$ 9,272
Discount – equity component of convertible debentures	(5,057)	(5,057)
Accretion of discount – equity component of convertible debentures	948	632
Foreign exchange adjustment	694	493
Offering costs attributable to convertible debentures	(1,494)	(1,494)
Amortization of offering costs attributable to convertible debentures	278	185
	$ 4,641	$ 4,031

The discount and the offering costs are being accreted and amortized to interest expense over the term of the convertible debentures.

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

NOTE 6 – ASSET RETIREMENT OBLIGATIONS

At March 31, 2010, the estimated total undiscounted amount required to settle the asset retirement obligations was $8,796. Costs for asset retirement have been calculated assuming an inflation rate ranging from 3.0% to 5.0%. These obligations will be settled based on the estimated useful lives of the underlying assets, which extend up to 20 years into the future. Obligations have been discounted using a credit-adjusted risk-free interest rate ranging from 6.5% to 11.0%. Changes to asset retirement obligations for the three months ended March 31, 2020 and the year ended December 31, 2009 were as follows:

	2010	2009
Asset retirement obligations – beginning of period	$ 6,106	$ 5,285
Liabilities incurred	-	583
Revisions to estimates	-	-
Liabilities settled	-	-
Liabilities conveyed	-	(97)
Accretion	105	335
Asset retirement obligations – end of period	$ 6,211	$ 6,106

NOTE 7 – SHAREHOLDERS' EQUITY

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 ended March 31, 2010 and the year ended December 31, 2009 is as follows:

	2010	2009
Balance, beginning of period	1,250,550	4,288,750
Agent warrants	-	1,250,550
Warrants exercised	-	(3,440,000)
Warrants expired	-	(848,750)
Balance, end of period	1,250,550	1,250,550

Common shares reserved for share purchase warrants outstanding as of March 31, 2010 are as follows:

Number of Shares	Exercise Price	Expiry Date
1,250,550	$0.52 (CDN$0.60)	June 30, 2011

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

NOTE 7 – SHAREHOLDERS' EQUITY (CONTINUED)

STOCK BASED COMPENSATION

The Company, in accordance with the policies of the 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 the Company's stock 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 the Company's stock 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. There were no options granted during the three months ended March 31, 2010 and 2009.

A summary of the Company's stock option plan as of March 31, 2010 and December 31, 2009, and changes during the three months and the year then ended, is presented below:

	2010		2009	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	41,975,000	$1.48	46,950,000	$1.90
Granted	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	(3,195,000)	$3.11
Forfeited	-	-	(1,780,000)	$2.07
Outstanding at end of period	41,975,000	$1.48	41,975,000	$1.48
Options exercisable at end of period	32,576,000	$1.40	32,576,000	$1.40

The following summarizes information about stock options outstanding and exercisable at March 31, 2010:

Options Outstanding	Options Exercisable	Exercise price	Weighted average remaining contractual life	Expiry date
15,500,000	15,500,000	$0.25	0.00 years	April 2, 2010
2,450,000	2,450,000	$0.50	0.56 years	October 21, 2010
7,949,000	6,359,200	$3.98	1.10 years	May 7, 2011
4,291,000	3,432,800	$2.83	1.69 years	December 9, 2011
600,000	360,000	$0.54	2.38 years	August 17, 2012
1,000,000	400,000	$0.98	3.10 years	May 6, 2013
10,185,000	4,074,000	$1.19	3.18 years	June 5, 2013
41,975,000	32,576,000			

At March 31, 2010, the weighted average remaining contractual life of stock options outstanding was 1.29 years.

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

NOTE 7 – SHAREHOLDERS' EQUITY (CONTINUED)

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.

Option-pricing models require the use of estimates and assumptions including the expected volatility of the Company'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.

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.

During the three months ended March 31, 2010, the Company incurred $45 (2009-$81) to a current director (2009 – two directors) for advisory and consulting services rendered.

NOTE 9 – SEGMENT INFORMATION

All of the Company's operations are in the petroleum and natural gas industry with its principal business activity being in 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 and Australia. An analysis of the Company's geographic areas is as follows:

	Hungary	Canada	Australia	United States	South Africa	Total
Three Months ended March 31, 2010						
Revenue	$ -	$ 12	$ -	$ -	$ -	$ 12
Net income (loss)	(1,444)	(2,160)	6	(1,329)	-	(4,927)
As of March 31, 2010						
Capital assets	174,506	44	39,592	491	121	214,754

	Hungary	Canada	Australia	United States	Romania	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	26,139	620	44	243,948

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

NOTE 10 –FINANCIAL INSTRUMENTS

(a) Fair value

The fair value of financial instruments at March 31, 2010 and December 31, 2009 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, 2010		December 31, 2009	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial assets:				
Held for trading				
Cash and cash equivalents and restricted cash	$ 9,823	$ 9,823	$ 12,988	$ 12,988
Loans and receivables				
Amounts receivable	2,008	2,008	2,955	2,955
Financial liabilities:				
Other financial liabilities				
Accounts payable and accrued liabilities	2,671	2,671	2,683	2,683
Convertible debentures	4,641	10,521	-	-

(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, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

Credit Risk

The Company's credit risk is limited to cash and receivables. The Company maintains cash accounts at four 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 since year end.

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 significantly since year end.

Currency Risk

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

NOTE 10 –FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk

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

Fair Value Estimation

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

NOTE 11 – MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to explore and develop its petroleum and natural gas properties. The Company manages the components of shareholders' equity and its cash as capital, and makes adjustments to these components in response to the Company's business objectives and the economic climate. To maintain or adjust its capital structure, the Company may issue new common shares or debt instruments, or borrow money or acquire or convey interests in other assets. The Company does not anticipate the payment of dividends in the foreseeable future.

The Company's investment policy is to hold excess cash in highly-liquid, short-term instruments, such as bankers' acceptances and guaranteed investment certificates issued by major Canadian chartered banks or United States financial institutions, with initial maturity terms of less than three months from the original date of acquisition, selected with regard to the Company's anticipated liquidity requirements.

The Company does not expect its current capital resources will be sufficient to meet future acquisition, exploration, development and production plans, operating requirements and convertible debenture obligations, and is dependent upon future debt and equity, or joint venture arrangements, to meet the obligations. See Note 1.

NOTE 12 – 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.

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) CONTINGENCIES

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

On November 10, 2009, the Company was served with a Complaint by a former vendor of TXM (the "Vendor"), claiming that the Company owes the Vendor approximately $3.2 million, plus interest, arising out of a dispute related to TXM's alleged failure to pay for certain oilfield equipment. Falcon and TXM have advised the Vendor, and continue to assert, that the claim is without merit and that they intend to vigorously defend against it as well as make any appropriate counter claims against the Vendor. The accompanying financial statements do not include any obligation related to this claim.

(c) COMMITMENTS

Under a work program approved by the Northern Territory of Australia Government, Department of Resources, on March 31, 2010, the Company is obligated to complete minimum work requirements by expending $6,400, $3,900 and $5,000 during the years ending December 31, 2010, 2011 and 2012, respectively, in order to continue to hold the underlying Permits in the Beetaloo Basin.

NOTE 13 – SUBSEQUENT EVENT

In January 2010, Falcon Australia commenced the private placement sale of up 50 million shares of its common stock ("FA Share") to sophisticated or professional investors within the meaning of sections 708(8) and 708(11) of the Corporations Act 2001 (Australia) pursuant to an Offer Memorandum (the "Offer"), at a price of $1.00 per FA Share with an attached option. Each option entitles the holder to acquire one additional FA Share in respect of each FA Share sold, exercisable at $1.25 for a period of three years from date of issue. The acting broker to the Offer will receive as a brokerage fee 6.5% of the funds raised in the Offer together with Options (on the same terms as issued to investors), calculated at 6.5% of the number of shares issued in the Offer. Closing is expected to occur on or about July 31, 2010.

In April 2010, all conditions precedent to closing the Offer, including consent from the Northern Territory government for the transfer to Falcon Australia of the remaining undivided 25% working interest from Sweetpea to Falcon Australia, have been satisfied (See Note 3).

As of May 24, 2010, $4,896, a portion of the proceeds from the Offer, has been received. Closing of this portion of the Offer and release of funds are pending, subject to final approval by the TSXV. The funds are to be utilized exclusively by Falcon Australia.