FALCON OIL & GAS LTD.

(Refiled) FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010

Falcon Oil & Gas Ltd. ("**Falcon**") is refiling this management's discussion and analysis to include the year ended December 31, 2008 in the "Selected Annual Information" section below.

The following management's discussion and analysis (the "**MD&A**") was prepared as at May 2, 2011 (Refiled May 19, 2011) and is management's assessment of Falcon's financial and operating results and provides a summary of the financial information of the Company for the year ended December 31, 2010. This MD&A should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2010 and 2009.

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

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2010 dated May 2, 2011, can be found on the System for Electronic Document Analysis and Retrieval (**"SEDAR"**) at www.sedar.com and Falcon's website at www.falconoilandgas.com.

Forward-looking Statements

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

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the United States of America (the "**United States**"), the Republic of Hungary ("**Hungary**"), the Commonwealth of Australia ("**Australia**"), the Republic of South Africa ("**South Africa**") and globally; supply and demand for petroleum and natural gas; industry conditions, including fluctuations in the price of petroleum and natural gas; governmental regulation of the petroleum and natural gas industry, including income tax, environmental and regulatory matters; fluctuation in foreign exchange or interest rates; risks and liabilities inherent in petroleum and natural gas operations, including exploration, development, exploitation, marketing and transportation risks; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut-in or delayed; the ability of our industry partners to pay their proportionate share of joint interest billings; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisition of reserves, processing and transportation capacity, undeveloped land and skilled personnel; the need to obtain required approvals from regulatory authorities; and the other factors considered under "Risk Factors" in the AIF.

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

Dollar Amounts

All dollar amounts below are in United States dollars, except as otherwise indicated. The financial information provided herein has been prepared in accordance with Canadian generally accepted accounting principles.

OVERVIEW OF BUSINESS AND OVERALL PERFORMANCE

About Falcon

The Company is an international energy company engaged in the business of acquiring, exploring and developing petroleum and natural gas properties, with offices in Vancouver, British Columbia, Denver, Colorado, Budapest, Hungary and Darwin and Sydney, Australia. The Company's registered office is located at 810-675 West Hastings Street, Vancouver, British Columbia, Canada V6B 1N2 and the Company's head office is located at 1875 Lawrence Street, Suite 1400, Denver, Colorado, U.S.A. 80202.

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

Hungary

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

The balance of the Exploration Licenses outside of the Production License expired on December 31, 2009, and was not eligible for extension. A "Closing Report" submitted in 2010, was accepted by the Hungarian Mining Authority, and the Company no longer has any Exploration Licenses.

On April 10, 2008, Falcon and TXM entered into the Production and Development Agreement (the "**PDA**"), as amended, with ExxonMobil Corporation affiliate Esso Exploration International Limited ("**ExxonMobil**") under which Falcon and ExxonMobil became joint owners in a specified portion (the "**Contract Area**") of the Production License. ExxonMobil sold one-half of its interest in the Contract Area to MOL Hungarian Oil and Gas Plc. ("**MOL**") pursuant to a pre-existing agreement between them, and ExxonMobil, MOL and TXM entered into a joint operating agreement (the "**JOA**") which governed all operations of the Contract Area not expressly addressed in the PDA. ExxonMobil was designated as the 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 entire Production License.

Future Operations

Future operations in the Makó Trough are subject to further technical evaluation by the Company. Operations within the Production License may also be subject to ongoing efforts to enter into joint venture arrangements to evaluate the Algyö, Szolnok, Endrőd and Basal Conglomerate formations.

Beetaloo Basin, Northern Territory, Australia

On September 30, 2008, Falcon and Falcon Australia consummated the acquisition of an undivided 50% working interest in an aggregate 7,000,000 acres in four exploration permits (the "**Permits**") in the Beetaloo Basin, Australia (the "**Beetaloo Basin Project**") pursuant to the terms of a Purchase and Sale Agreement, as amended on October 31, 2008, (the "**Beetaloo PSA**") with PetroHunter Energy Corporation and its subsidiaries, PetroHunter Operating Company and Sweetpea Petroleum Pty Ltd. ("**Sweetpea**") (collectively, "**PetroHunter**"), each of which is a non-arm's length party for the purposes of the TSX Venture Exchange (the "**TSXV**").

On June 11, 2009, pursuant to a second Purchase and Sale Agreement (the "**Second PSA**") with PetroHunter, the Company completed 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 transaction was the exchange of a $5,000,000 note receivable from PetroHunter. In addition, the Company agreed to pay certain vendors who had provided goods or services for the Beetaloo Basin Project, prior to the Company acquiring its 50% interest in September 2008, in exchange for inventory and operator bonds of approximately the same value, and has relinquished its right to the unexpended testing and completion funds of the Buckskin Mesa Project (as defined below). Upon closing, the Company became operator of the Beetaloo Basin Project, and PetroHunter and the Company entered into an escrow agreement governing the release of all remaining common shares of Falcon previously issued to PetroHunter.

On December 7, 2009, Falcon and Falcon Australia entered into a Binding Heads of Agreement (the "**Agreement**") with PetroHunter and Sweetpea wherein Falcon Australia would issue to Sweetpea common shares of Falcon Australia in consideration for the transfer of Sweetpea's undivided 25% working interest in the Permits. Under the terms of the Agreement, Falcon has been issued 150 million shares of Falcon Australia for conversion of a portion ($30,000,000) of Falcon Australia's debt payable to Falcon, which approximates Falcon's initial acquisition cost previously paid to Sweetpea for the 75% working interest in the Permits held by Falcon Australia as of the date of the Agreement; and Falcon Australia issued 50 million shares of its common stock to Sweetpea (valued at $10,000,000) and settled a joint interest billing receivable from Sweetpea of $1,725,000 for Sweetpea's remaining 25% working interest in the Permits. On April 23, 2010, Falcon Australia received notice (the "**Notice**") from the Department of Resources, Northern Territory Government, that the registration of the transfer of the remaining 25% interest in the Permits was completed, satisfying all conditions precedent to closing. Pursuant to the Notice, Falcon Australia now owns 100% of the Permits.

The Permits are subject to a combined governmental royalty of between 10-12% and an overriding royalty to two arm's length third parties in an amount not to exceed 12.1%.

Highlights for 2010

In February 2010, the Company commenced well site construction and service tendering exercises for the 2010 work program, with the intentions of commencing drilling and completion activities in July/August 2010. Abnormal rains and flooding throughout the Australian states of Northern Territory, Queensland and New South Wales had significant impact and caused the service companies to re-evaluate their ability to honor their commitment to perform the required contracted services and provide the equipment required for the 2010 drilling and completion activities. Based on this, the Company requested, and received in June 2010, notice from the Northern Territory Government, Department of Resources, that its 2010 work commitment obligation for EP 98 has been extended to December 31, 2011. During 2010, activity has been limited to geological and geophysical analysis, engineering and analytical evaluations. The Company has submitted applications of approval to the Aboriginal Area Protection Agency and the Northern Land Council for indigenous cultural clearances of future well sites which includes heritage and environmental work that will allow the Company to enter the lands and perform work as required.

Future Operations

The Company's revised minimum work program obligations to retain all of the underlying Permits in the Beetaloo Basin will be to expend $6,400,000 and $8,700,000 during the years ending December 31, 2011 and 2012, respectively. Operations within the Permits may also be subject to ongoing efforts to enter into joint venture arrangements to evaluate the potential of the basin. As discussed below under "Liquidity and Capital Resources", on April 28, 2011 the Company entered into an Evaluation and Participation Agreement ("**E&P Agreement**") with Hess Australia (Beetaloo) Pty. Ltd ("**Hess**").

Canada

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

Karoo Basin, South Africa

On October 27, 2009, the Company secured a Technical Cooperation Permit (the "**TCP**") to evaluate the Karoo Basin in central South Africa. The Company had up to one year to conduct a technical appraisal of the area covered by the TCP, which does not include any well or seismic work obligations. At or before the end of the one year period, the Company had the exclusive option to apply for an exploration permit covering all or a portion of the TCP. Falcon submitted its application which was accepted on September 7, 2010. Upon receipt of an approved exploration permit, the Company will be required to make a payment of $400,000, and obtain an approved work program. The TCP covers approximately 7.5 million acres and is located approximately 120 miles northeast of Cape Town, South Africa.

SELECTED ANNUAL INFORMATION

	2010	**2009**	**2008**
For the year ended December 31:			
Revenues	$ 28,000	$ 69,000	$ 60,000
Net loss	(150,716,000)	(63,928,000)	(35,911,000)
Loss per share	(0.250)	(0.107)	(0.063)
Cash dividend per share	Nil	Nil	Nil
As of December 31:			
Total assets	115,872,000	242,999,000	298,702,000
Long-term liabilities	11,412,000	10,137,000	5,285,000

2010 compared with 2009

The Company reported a net loss of $151,253,000 ($0.250 per share) for 2010 as compared to a net loss of $63,928,000 ($0.107 per share) for 2009. Significant changes between the 2010 and 2009 year were as follows:

	Year Ended December 31,		Change	
	2010	**2009**	**$**	**%**
Investor relations	$ 269,000	$ 1,190,000	$ 921,000	77.4%
Office and administrative	2,092,000	2,697,000	605,000	22.4%
Payroll and related costs	2,135,000	3,668,000	1,533,000	41.8%
Travel and promotion	1,461,000	1,988,000	527,000	26.5%
Joint venture marketing	2,058,000	-	(2,058,000)	
Stock based compensation	4,321,000	5,452,000	1,131,000	20.7%
Impairment of petroleum and natural gas properties	127,000,000	45,045,000	(81,955,000)	(181.9)%
Write off of receivable	4,345,000	-	(4,345,000)	
Foreign exchange	842,000	(2,573,000)	(3,415,000)	(132.7)%
Other	6,730,000	6,461,000	(269,000)	(4.1)%
Net loss and comprehensive loss	$ 151,253,000	$ 63,928,000	$(87,325,000)	(136.6)%

2009 compared with 2008

The Company reported a net loss of $63,928,000 ($0.107 per share) for 2009 as compared to a net loss of $35,911,000 ($0.063 per share) for 2008. Significant changes between the 2009 and 2008 year were as follows:

	Year Ended December 31,		Change	
	2009	**2008**	**$**	**%**
Investor relations	$ 1,190,000	$ 610,000	$ (580,000)	(95.1)%
Payroll and related costs	3,668,000	2,908,000	(760,000)	(26.1)%
Stock based compensation	5,452,000	8,481,000	3,029,000	35.7%
Writedown of inventory available for sale	1,559,000	2,610,000	1,051,000	40.3%
Interest expense	879,000	-	(879,000)	
Interest income	(333,000)	(1,548,000)	(1,215,000)	(78.5)%
Impairment of petroleum and natural gas properties	45,045,000	6,970,000	(38,075,000)	(546.3)%
Foreign exchange	(2,573,000)	5,273,000	7,846,000	148.8%
Other	9,041,000	10,607,000	1,566,000	14.8%
Net loss and comprehensive loss	$ 63,928,000	$ 35,911,000	$(28,017,000)	78.0%

See also *"Overview of Business and Overall Performance"* and *"Results of Operations"*.

RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year Ended December 31, 2010 as Compared to the Year Ended December 31, 2009

This review of the results of operations should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2010 and 2009. The following is a summary of those results:

	Year Ended December 31,		Change	
	2010	**2009**	**$**	**%**
Petroleum revenue	$ 28,000	$ 69,000	$ (41,000)	(59.4)%
Costs and expenses				
Accounting	914,000	766,000	(148,000)	(19.3)%
Consulting	1,122,000	1,279,000	157,000	12.3%
Director fees	215,000	258,000	43,000	16.7%
Investor relations	269,000	1,190,000	921,000	77.4%
Legal costs	1,057,000	1,448,000	391,000	27.0%
Office and administrative	2,092,000	2,697,000	605,000	22.4%
Payroll and related costs	2,135,000	3,668,000	1,533,000	41.8%
Travel and promotion	1,461,000	1,988,000	527,000	26.5%
Joint venture marketing	2,058,000	-	(2,058,000)	
Total general and administrative	11,323,000	13,294,000	1,971,000	14.8%
Stock based compensation	4,321,000	5,452,000	1,131,000	20.7%
Production costs	26,000	43,000	17,000	39.5%
Depreciation, depletion, amortization and accretion	832,000	842,000	10,000	1.2%
Impairment of petroleum and natural gas properties	127,000,000	45,045,000	(81,955,000)	(181.9)%
Write off of receivable	4,345,000	-	(4,345,000)	
Writedown of inventory available for sale	1,186,000	1,559,000	373,000	23.9%
	149,033,000	66,235,000	(82,798,000)	(125.0)%
Other income (expense)				
Interest expense	(1,065,000)	(879,000)	(186,000)	(21.2)%
Interest income	45,000	333,000	(288,000)	(86.5)%
Gain (loss) on foreign exchange	(842,000)	2,573,000	(3,415,000)	(132.7)%
Other income (expense)	(386,000)	211,000	(597,000)	(282.9)%
	(2,248,000)	2,238,000	(4,486,000)	(200.4)%
Net loss and comprehensive loss	$ (151,253,000)	$ (63,928,000)	$(87,325,000)	(136.6)%
Net loss and comprehensive loss attributable to:				
Owners of the Company	$ (150,716,000)	$ (63,928,000)	$(86,788,000)	(135.8)%
Non-controlling interest	(537,000)	-	(537,000)	
Net loss and comprehensive loss	$ (151,253,000)	$ (63,928,000)	$(87,325,000)	(136.6)%

Petroleum Revenue

Of the revenue from petroleum and natural gas sales, $4,000 in 2010 and $30,000 in 2009 were from the production of the Magyarcsanad-1 well in Hungary, on which all royalties due to the Hungarian government have been paid. The remainder of the revenue, $24,000 in 2010 and $39,000 in 2009, was derived from the sale of natural gas from the Hackett Interests. The Company has not yet realized revenue, and has incurred significant expenditures in connection with its exploration for petroleum and natural gas.

Costs and expenses

General and administrative costs decreased $1,971,000 to $11,323,000 in 2010 from $13,294,000 in 2009. The decrease was primarily due to the Company's cost containment policies. The significant components of changes in general and administrative expenses in 2010 as compared to 2009 were as follows:

- Accounting – the increase was attributable to additional costs during the second quarter to obtain an independent valuation of the Hungarian Production License and Exploration License, and additional costs associated with the planned implementation of International Financial Reporting Standards during 2011.

- Consulting – the decrease was attributable to certain one-time costs incurred prior to a unit offering during 2009, one-time costs incurred for resource valuations of the Beetaloo Basin Project during 2009, and cost containment measures.

- Director fees – the decrease was attributable to the voluntary election by the board of directors to reduce their fees.

- Investor relations – the decrease was attributable to cost containment measures with respect to third party providers, elimination of certain Company personnel and non-recurring costs in 2009 related to the convertible debt offering and annual general meeting.

- Legal costs – the decrease was attributable to cost containment measures with respect to external counsel, primarily in Hungary, and through elimination of internal counsel, offset by attention to certain legal matters in Hungary (see Legal Matters below), including those associated with vacating the existing office space and relocating to another property, and to certain general legal matters in Australia.

- Office and administrative – On July 31, 2010, the Company vacated its existing office space in Budapest, Hungary, and relocated to another property. This resulted in a reduction to occupancy costs.

- Payroll and related costs – the decrease was attributable to the elimination of certain personnel and to the reduction of compensation for retained personnel.

- Travel and promotion – the decrease for 2010 was attributable to cost containment measures offset by increased travel related to the Company's financing activities and joint venture partner endeavours in Australia, which started to diminish during the latter part of the second quarter of 2010.

- Joint venture marketing – costs incurred solely in 2010 were attributable to the Company's efforts to identify and secure a joint venture partner for its Beetaloo Basin Project.

- Stock based compensation (calculated utilizing the Black-Scholes option-pricing model) – the decrease was attributable to a reduction in the remaining compensation of options granted in prior years to be amortized, and a reduction in the compensation of options granted during the current year to be amortized. During 2010, the Company granted officers, directors, employees and consultants of the Company options to purchase 5,725,000 Common Shares at an exercise price of $0.15 (CDN$0.15) to $0.16 (CDN$0.17). The options vest 33.3% at the date of grant, and 33.3% annually thereafter, and expire in August to December 2015. On August 3, 2010 and November 10, 2010, the Company agreed to issue 1,000,000 and 4,000,000 shares of common stock, respectively, to two past officers valued at $168,000 and $480,000 respectively, that is reflected in stock based compensation.

Impairment of petroleum and natural gas properties

During 2010, the Company determined that the carrying value of the Hungarian petroleum and natural gas properties exceeded its estimated recoverable amount. Consequently, during the third quarter of 2010, the Company reflected an impairment of petroleum and natural gas properties of $51,000,000 in its consolidated statement of operations, with a corresponding reduction to petroleum and natural gas properties in the consolidated balance sheet. During the fourth quarter of 2010, the Company reflected an additional impairment of $76,000,000, resulting in total impairment of $127,000,000 during 2010.

As of December 31, 2009, the Company determined that the carrying value of the Hungarian petroleum and natural gas properties exceeded its estimated fair value. Consequently, during the fourth quarter of 2009, the Company reflected an impairment of petroleum and natural gas properties of $45,000,000 in its consolidated statement of operations, with a corresponding reduction to petroleum and natural gas properties in the consolidated balance sheet.

Write off of receivable

Associated with its property in Hungary, during the third quarter of 2010, the Company has reflected as a charge to the consolidated statement of operations costs of $4,345,000 resulting from the Production Development Agreement, with a corresponding reduction to other assets in the consolidated balance sheet.

Writedown of inventory available for sale

Inventory available for sale consists of drill pipe, casing and tubing. During the year ended December 31, 2010, the Company acquired inventory of $65,000, received $1,397,000 (2009-$497,000) from the sale of inventory available for sale and charged to operations $1,186,000 (2009-$1,559,000) as a write down to the carrying cost of the inventory to estimated net realizable value of $1,678,000 (2009-$4,196,000) (34% (2009-48%) of the original cost basis).

Other income (expense)

- Interest expense – the increase was attributable to the Company's financing activities resulting in the completion of the Offering (as defined below) in June 2009, and includes statutory interest, amortization of deferred financing costs and accretion of the equity component of the convertible debentures. During 2009, statutory interest on the convertible debentures of $340,000 and amortization of deferred financing costs of $124,000 (total of $464,000) were capitalized to petroleum and natural gas properties, specifically the Beetaloo Basin Project. During 2010, there was no capitalization of interest.

- Interest income – the decrease was attributable to a reduction in the cash available for investment and the interest rate earned on the investments.

- Gain (loss) on foreign exchange – during 2010, the loss on foreign exchange was primarily due to the payment of obligations for operating activities in Hungary during a period when the value of the Hungarian forint was increasing relative to the US dollar. During the year ended December 31, 2009, the gain on foreign exchange was attributable to the payment of obligations for operating activities in Hungary during a period when the value of the Hungarian forint was increasing relative to the US dollar, and the foreign exchange movements on Canadian denominated cash accounts.

  Through the first quarter of 2009, the value of the US dollar increased relative to the Canadian dollar. Since then, other than intermittent strengthening, the value of the US dollar has decreased relative to the Canadian dollar through the end of 2010.

  The value of the US dollar increased relative to the Hungarian forint through the first quarter of 2009. Since then, and through November 2009, the value of the US dollar has decreased; thereafter, other than intermittent weakening, the value of the US dollar has increased relative to the Hungarian forint.

  Through May 2010, the value of the US dollar increased relative to the Australian dollar; since then, it has declined.

  With the exception of the Falcon Australia private placement, which was in US dollars, the Company's financings have been in Canadian dollars; commensurate with the weakening of the US dollar, the Company changed the composition of its cash balances to 54% in US dollars, 9% in Canadian dollars, 9% in Hungarian forints, nil in Euros and 28% in Australian dollars at December 31, 2010; a significant portion of the Company's operations are in Hungarian forints. The increase in the Canadian dollar cash balance relative to the total cash balance resulted from the proceeds from the unit offering discussed below, and the reduction of the US dollar cash balance as monies were used to fund the deepening of the Shenandoah-1 well in 2009.

Net loss attributable to non-controlling interest

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

SUMMARY OF QUARTERLY RESULTS

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

As of:	March 31, 2010 (*)	June 30, 2010	September 30, 2010	December 31, 2010
Total assets	$239,415,012	$249,210,640	$194,747,199	$115,872,150
Petroleum and natural gas properties	208,888,941	221,248,083	175,514,433	99,261,909
Working capital	13,713,446	14,124,945	5,711,412	4,846,509
Total shareholders' equity	225,892,056	236,053,267	176,058,325	98,888,620
For the three months ended:	**March 31, 2010**	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**
Revenue	12,188	184	11,924	3,423
Net income (loss)	(5,667,648)	(5,748,701)	(60,532,222)	(78,767,432)
Net income (loss) per share-basic and diluted	(0.009)	(0.010)	(0.100)	(0.131)

As of:	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Total assets	$298,830,658	$294,000,253	$292,435,351	$242,999,051
Petroleum and natural gas properties	237,757,364	245,704,299	250,348,187	207,889,291
Working capital	29,051,915	33,156,259	27,514,066	18,175,441
Total shareholders' equity	278,793,568	282,903,353	280,973,242	230,178,690
For the three months ended:	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**	**December 31, 2009**
Revenue	11,091	9,157	7,184	41,113
Net income (loss)	(3,788,342)	(3,693,105)	(4,769,636)	(51,677,321)
Net income (loss) per share-basic and diluted	(0.006)	(0.006)	(0.009)	(0.086)

(*) Reflects revision for expensing of joint venture marketing costs of $740,803 previously capitalized.

The Company is a development stage company; it has limited revenue which is not material. As well, the Company's net income (loss) and net income (loss) per share relate to the Company's operations during a particular period, and are not seasonal in nature. Generally, the Company's total assets, petroleum and natural gas properties, working capital and total shareholders' equity fluctuate in proportion to one another until such time as the Company completes additional financing.

LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended December 31, 2010, the Company incurred a net loss of $150,716,000 and, as at December 31, 2010, had a deficit of $284,955,000 and working capital of $4,848,000. The Company's 2011 cash requirements for operations and spending required to maintain its Australian permits exceed available capital resources at December 31, 2010.

The Company has been focused on securing equity financing and joint venture funding for both its operations in the Beetaloo Basin Project and its operations in the Makó Trough. As discussed below, on April 11, 2011, the Company completed a private placement of units and, on April 28, 2011, entered into an E&P Agreement with Hess for the Beetaloo Basin Project.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to fund its operations, to secure an industry partner for its operations in Australia and Hungary, and ultimately to achieve profitable operations through the discovery of economically recoverable reserves.

Falcon Unit Offering

On June 30, 2009, the Company completed a unit offering, for gross proceeds of $10,302,000 (CDN$11,910,000). Each unit consisted of one 11% convertible unsecured debenture in the principal amount of $779 (CDN$900) (each, a "**Debenture**") that matures on the fourth anniversary of its issuance, and 250 common shares in the capital of Falcon (the "**Unit Shares**"). The Debentures contain certain automatic and optional conversion features, as well as certain redemption features.

The Offering was conducted by an independent agent (the "**Agent**"). The Agent and members of the selling group were paid a cash commission of $644,000 (CDN$744,000), equal to 6.25% of the aggregate gross proceeds of the Offering, and received 1,250,550 non-transferrable warrants (the "**Agent Warrants**") to purchase Falcon common shares, based on 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, at an exercise price of $0.52 (CDN$0.60) per share.

Falcon Australia Private Placement

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 ("**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. In June and November 2010, Falcon Australia closed on gross proceeds from the Offer of $4,896,000 and $1,218,000, respectively, before costs of the Offer of $646,000. The proceeds from the Offer are to be utilized for operations in Australia. Giving effect to the closings of the Offer, Falcon has a 72.7% interest in Falcon Australia.

Falcon Private Placement

On April 11, 2011, Falcon issued 87,050,000 units (the "**Private Placement Units**") at $0.16 (CDN$0.15) per Private Placement Unit by way of a non-brokered private placement for aggregate gross proceeds of CDN$13,058,000. Each Private Placement Unit consists of one common share in the capital of Falcon and three-quarters of one common share purchase warrant (each, a "**Private Placement Warrant**"), each whole Warrant being exercisable into a common share for a period of 36 months from the date of its issuance at an exercise price of $0.19 (CDN$0.18) per share. A finders' fee of $149,000 is due to a non-related entity.

Falcon Australia Joint Venture

On April 28, 2011, Falcon Australia entered into an E&P Agreement with Hess. By the terms of the E&P Agreement, Hess will pay $17.5 million to Falcon Australia 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**"). In addition, Hess will pay Falcon $2.5 million as consideration for warrants to acquire 10,000,000 common shares in the capital of Falcon for a period of 42 months from the date of issuance at an exercise price of CDN$0.19 per share.

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

By December 31, 2011, Falcon Australia must test and complete the Shenandoah-1 well at their sole cost, and in accordance with the Work Program. After testing and completion, Falcon Australia must provide Hess copies of the data obtained from such activities, and Hess must pay Falcon Australia $2.0 million for the data.

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

The transaction as a whole is subject to receipt of all governmental and regulatory consents, including the TSXV.

Working Capital

Cash and cash equivalents at December 31, 2010 were $7,274,000, a decrease of $4,530,000 from $11,804,000 at December 31, 2009. Working capital at December 31, 2010 decreased to $4,848,000 from $18,176,000 at December 31, 2009.

The decrease to cash and cash equivalents of $4,530,000 was attributable to cash used in operating activities and investing activities of $8,491,000 and $3,095,000, respectively, offset by cash provided by financing activities and the effect of exchange rates on cash of $6,723,000 and $333,000, respectively.

Amounts Receivable

Amounts receivable at December 31, 2010 were $1,025,000, which includes $214,000 receivable from a joint interest owner for Australian GST, $271,000 receivable from the Hungarian, Australian and Canadian governments as refunds of VAT, GST and GST, respectively, and other of $540,000 (of which $162,000 is for operator bonds due from the Australian government).

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses at December 31, 2010 were $5,571,000, which includes $258,000 for capital expenditures related primarily to the Company's Hungarian and Australian operations, as compared to accounts payable and accrued expenses of $2,683,000 at December 31, 2009, which includes $770,000 for capital expenditures related primarily to the Company's Hungarian and Australian operations. Included at December 31, 2010 is an estimated liability of $3,700,000 for certain obligations (discussed below in Legal Matters).

Capital Expenditures

For the year ended December 31, 2010, capitalized additions to petroleum and natural gas properties were $18,013,000, of which $4,624,000 was in Hungary, including $3,700,000 of non-cash expenses related to certain obligations (discussed below in Legal Matters), $12,926,000 was in Australia (including $11,725,000 of non-cash charges for the acquisition of Sweetpea's remaining 25% working interest in the Beetaloo Basin Project by Falcon Australia) and $463,000 was in South Africa. During 2010, cash payments on all petroleum and natural gas properties were $3,100,000, of which $770,000 represented amounts incurred and reflected in accounts payable and accrued expenses at December 31, 2009.

For the year ended December 31, 2009, capitalized additions to petroleum and natural gas properties were $15,192,000, of which $5,734,000 was for the acquisition of an additional 25% interest in the Beetaloo Basin Project. During 2009, cash payments on all petroleum and natural gas properties were $8,836,000, of which $624,000 represented amounts incurred and reflected in accounts payable and accrued expenses at December 31, 2008.

Hungary

As at December 31, 2010, the Company's net cumulative expenditures for the Production License and Exploration Licenses, including the acquisition, seismic testing, drilling of exploratory wells, and initial testing and completion of wells, was approximately $218,497,000**,** including an asset retirement obligation of approximately $5,322,000. The significant costs incurred during 2010 in Hungary were $3,700,000 for certain obligations (discussed below in Legal Matters); the remainder of $924,000 was primarily for the seven existing well bores.

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

Australia

During 2010, costs incurred in Australia have been limited to geological and geophysical analysis, engineering and analytical evaluations, and working with the Northern Land Council and Aboriginal Area Protection Agency for site clearances and necessary environmental studies.

The Company's 2010 work commitment has been extended to December 31, 2011. The Company's future capital requirements for 2011 and beyond will be dependent upon the evaluation of the results of the 2011 work program on the Shenandoah-1 well and the overall Beetaloo Basin Project.

Debt and Equity Capital

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

Legal Matters

The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, actions involving allegations of discrimination, 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 materially adverse effect on its financial condition or results of operations.

On November 10, 2009, as amended on March 16, 2011, the Company was served with a Complaint by a former vendor of TXM (the "**Vendor**") arising out of a dispute related to TXM's alleged failure to pay for certain oilfield equipment. The Company intends to vigorously defend against the claim as well as make any appropriate counter claims against the Vendor.

On October 15, 2010, the High Court of Justice, Queen's Bench Division, Commercial Court in the United Kingdom ruled that jurisdiction for this matter is to be in the United Kingdom ("**UK**"), and not Hungary, as claimed by TXM. TXM has filed an appeal to have the lower court order reversed and, if upheld, this would stop all proceedings in the UK. The Company is filing for arbitration in Hungary, even as the lower court order is being appealed. There is no assurance that the Company will prevail in the appeal process or that arbitration in Hungary will be granted.

Although the Company is of the opinion that it has a meritorious defense to the claim by the vendor, management has determined that an appropriate estimate of the potential liability should be recorded should the Company not prevail in the matter. Accordingly, the December 31, 2010 financial statements include an obligation of $3,700,000, including interest and fees, related to this claim that is reflected as a charge to petroleum and natural gas properties with a corresponding increase to accounts payable and accrued expenses.

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

The Company has entered into certain agreements and transactions with PetroHunter, a non-arm's length party for the purposes of the TSXV, whose largest single shareholder was also the former President and CEO of the Company at the time of the transactions. The Company acquired working interests from PetroHunter in the Beetaloo Basin Project.

Beetaloo Basin Project

On December 7, 2009, Falcon and Falcon Australia entered into an Agreement with PetroHunter and Sweetpea, wherein Falcon Australia issued to Sweetpea common shares of Falcon Australia in consideration for the transfer of Sweetpea's undivided 25% working interest in the Permits. Under the terms of the Agreement, Falcon was issued 150 million shares of Falcon Australia for conversion of a portion ($30,000,000) of Falcon Australia's debt payable to Falcon, which approximates Falcon's initial acquisition cost previously paid to Sweetpea for the 75% working interest in the Permits held by Falcon Australia as of the date of the Agreement; and Sweetpea was issued 50 million shares (valued at $10,000,000) of Falcon Australia, and settled its $1,725,000 joint interest billing from Falcon Australia, for its remaining 25% working interest in the Permits.

Services – Directors and Officers

During 2010, the Company incurred $128,000 (2009-$180,000) to a current director of the Company, Dr. György Szabó, for advisory and consulting services rendered to TXM; and nil (2009- $145,000) in consulting fees to a current director of the Company, Mr. Daryl Gilbert, for advisory and consulting services rendered to Falcon.

David Brody, the Company's former Corporate Secretary, is a partner of Patton Boggs LLP, a US law firm that provided US legal advice to the Company. The Company has not recorded any amounts paid to Patton Boggs LLP as transactions with a related party in 2010 and 2009, as Mr. Brody had not received any remuneration from Patton Boggs LLP during the term of his appointment as Corporate Secretary of Falcon.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at December 31, 2010 and May 2, 2011:

Class Of Securities	December 31, 2010	May 2, 2011
Common Shares (1) (2)	602,216,801	690,316,801
Stock Options (3)	21,764,500	20,114,500
June Agents' Warrants(4)	1,250,550	1,250,550
Private Placement Warrants(1)	-	65,287,500

Notes:

(1) On April 11, 2011, Falcon issued 87,050,000 Units at $0.16 (CDN$0.15) per Unit. Each Unit consists of a Common Share and three-quarters of one Common Share purchase warrant with each whole warrant being exercisable into a Common Share for a period of 36 months from the date of its issuance at an exercise price of $0.19 (CDN$0.18) per share.
(2) On February 28, 2011, Falcon issued 1,000,000 Common Shares to a past officer.
(3) During January 2011, options to acquire 50,000 Common Shares at a price of $0.17 (CDN$0.17) per Common Share were exercised; and options to acquire 1,600,000 Common Shares were forfeited.
(4) Warrants to purchase 1,250,550 Common Shares at a price of $0.52 (CDN$0.60) per Common Share were issued to the agents in June 2009 in connection with the Offering, and expire on June 30, 2011.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

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

CRITICAL ACCOUNTING POLICIES

Management is often required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company. Following is a discussion of the accounting estimates that are critical in determining the Company's financial results.

Full cost accounting

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country cost centre basis. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells, well equipment, flow line and facility costs, geological and geophysical expenses and overhead expenses directly related to exploration and development activities. Gains or losses on sales of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate. The aggregate of capitalized costs, net of certain costs related to unproved properties, and estimated future development costs are amortized using the unit-of-production method based on estimated proved reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. Changes in estimated proven reserves or future development costs have a direct impact on depletion and depreciation expense.

Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned to them. If proved reserves are assigned to the properties, the costs are included in the depletion calculation. Similarly, if assets are determined to be impaired, any applicable write-downs are charges to depletion expense.

Petroleum and natural gas reserves

Estimates of petroleum and natural gas reserves are projections based on geological and engineering data. There are uncertainties inherent in these projections, including the interpretation of data and the projection of future rates of production and the timing of developmental expenditures. Reserve engineering is an analytical process of estimating below ground accumulations of petroleum and natural gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. The Company's proved petroleum and natural gas reserves are evaluated and reported on annually by an independent petroleum-engineering consultant. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to a number of uncertainties and various interpretations. The Company expects that over time its reserve estimates will be revised upward or downward based on updated information such as the results of future drilling, testing and production levels. Reserve estimates can have a significant impact on net earnings, as they are a key component in the calculation of depletion. A revision to the reserves estimate could result in a higher or lower depreciation, depletion and amortization ("**DD&A**") charge to net earnings. Downward revisions to reserve estimates could also result in a write-down of petroleum and natural gas property, plant and equipment under the ceiling test described below.

At December 31, 2010, the Company had proved reserves for the Hackett Interests.

Ceiling test

The carrying value of property, plant and equipment is reviewed each quarter for impairment. Impairment will occur when the carrying amount of the property, plant and equipment minus the sum of the undiscounted cash flows expected to result from the Company's proved reserves yields a negative result. The cash flows are calculated based on third party quoted forward prices and adjusted for the Company's contract and/or hedged prices as well as quality differentials. If there were impairment, the magnitude of it would be calculated by comparing the carrying amount of property, plant and equipment to the estimated net present value of future cash flows from proved plus risked probable reserves. A risk-free interest rate is used to arrive at the net present value of future cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as a permanent impairment and charged as additional depletion expense in the statement of operations.

For the year ended December 31, 2010, no impairment was required for the Company's petroleum and natural gas properties in Australia and Canada; however, the Company did require impairment of its Hungarian property.

Asset retirement obligations

The Company recognizes the fair value of asset retirement obligations ("**ARO**") in the period in which they are incurred and when a reasonable estimate of fair value can be made. The obligations recognized are estimates of statutory, contractual or legal obligations that the Company will reasonably be expected to incur and then discounted to its present value using the Company's credit adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and the amount of this accretion is charged to earnings in the period through charges to accretion expense. Actual costs incurred upon settlement of the retirement obligation are charged against the obligation to the extent of the liability recorded. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the ARO. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs. Determination of the original undiscounted costs is based on engineering estimates using current costs in accordance with existing legislation and industry practice. The estimation of these costs can be affected by factors such as the number of wells drilled, well depth, estimated future salvage values, location of the well and current environmental legislation.

At December 31, 2010, the Company has recorded an ARO for the Beetaloo Basin Project, the Hackett Interest and the seven exploratory wells in Hungary.

Future income tax

The Company follows the asset and liability method of accounting for income taxes. Under this method the Company records future income tax assets and liabilities based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the currently enacted, or substantively enacted tax rates and laws expected to apply when these differences reverse. The effect of a change in substantively enacted income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Stock based compensation

The Company has a stock based compensation plan enabling officers, directors and employees to purchase common shares at exercise prices equal to the market price on the date the option is granted. The Company uses the fair value method for valuing stock option grants. Compensation costs attributable to share options granted are measured at their fair value at the grant date and expensed over the expected exercise time period with a corresponding increase to contributed surplus. Upon exercise of the stock options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is credited to share capital. The assumptions used in calculating its stock based compensation expense are: the volatility of the stock price, risk-free rates of return and the expected lives of the options given that some will be forfeited upon termination of employment.

Foreign currency

The United States dollar is the Company's reporting currency in all areas of operations: Australia, Canada, Hungary, and United States. The Australian dollar, the Canadian dollar, the Hungarian forint and the United States dollar are the functional currencies. The Company attempts to manage its operations in such a manner as to reduce its exposure to foreign exchange losses. However, there are many factors that affect foreign exchange rates and resulting exchange gains and losses, many of which are beyond the Company's influence. It is not possible to predict the extent to which the Company may be affected by future changes in exchange rates.

NEW CANADIAN ACCOUNTING STANDARDS

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

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations ("**Section 1582**"), Section 1601, Consolidated Financial Statements ("**Section 1601**"), and Section 1602, Non-controlling Interests ("**Section 1602**"). These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, Business Combinations, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

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 material 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.

No other new accounting policies were adopted by the Company during the year ended December 31, 2010, and the Company is not expected to adopt any new accounting policies in 2011.

International Financial Reporting Standards

The Company will be required to adopt IFRS for its interim and annual consolidated financial statements effective January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of all quarterly results reported by the Company for the year ended December 31, 2010, as well as an opening IFRS consolidated balance sheet as of January 1, 2010.

During 2010 and 2011, the Company performed a diagnostic review of the significant differences between IFRS and Canadian GAAP in order to identify areas that could significantly impact the Company's financial reporting. In many areas, the Company's policies and transition elections may impact the effect that the conversion to IFRS will have on the Company's financial reporting. As such, during 2010 and 2011, the Company evaluated and selected appropriate accounting policies and determined the transition elections it plans to use. As a result of the above process, the Company expects the following areas could be significantly impacted by the Company's transition to IFRS:

Petroleum and natural gas properties

Adoption of IFRS may significantly impact the Company's accounting policies for petroleum and natural gas properties. For Canadian GAAP purposes, the Company follows the full cost method of accounting as prescribed by Accounting Guideline 16. Application of the full cost method of accounting is discussed in the "Critical Accounting Estimates" section of this MD&A. Significant differences in accounting for petroleum and natural gas properties between IFRS and Canadian GAAP include the following:

- Pre-exploration costs must be expensed. Under the full cost method of accounting, these costs are currently included in the country cost centre.

- Exploration and evaluation costs will be initially capitalized as exploration and evaluation assets. Once technical feasibility and commercial viability of reserves is established for an area, the costs will be transferred to petroleum and natural gas properties. If technically feasible and commercially viable reserves are not established for a new area, the costs must be expensed. Under the full cost method of accounting, exploration and evaluation costs are currently disclosed as petroleum and natural gas properties, but withheld from costs subject to DD&A. Costs are transferred to costs subject to DD&A when proved reserves are assigned or when it is determined that the costs are impaired.

- DD&A of producing properties will be at an asset level. Under full cost method of accounting, DD&A of petroleum and natural gas properties is on a country cost centre basis.

- Interest directly attributable to the acquisition or construction of a qualifying asset must be capitalized to the cost of the asset. Under Canadian GAAP, capitalization of interest is discretionary.

- Impairment of petroleum and natural gas properties will be tested at a cash generating unit level (the lowest level at which cash inflows can be identified). Under the full cost method of accounting, impairment is tested at the country cost centre level.

Impairment of long-lived assets other than petroleum and natural gas properties

Under Canadian GAAP, when events or changes in circumstances indicate that a long-lived asset may be impaired, the carrying value is compared to both the net recoverable amount (being net cash flows calculated on an undiscounted basis) and fair value. Where the carrying amount is greater than either of these amounts, an impairment equal to the difference between the carrying amount and fair value is recognized in earnings.

Under IFRS, impairment is assessed using a one-step process which compares the carrying amount to the recoverable amount, calculated as the greater of the value in use, being the estimated discounted future expected pre-tax cash flows, and fair value less costs to sell, of the asset being tested. Impairment may result from the use of the one-step process under IFRS where no impairment exists under the two-step process required by Canadian GAAP.

Under IFRS, an impairment loss is recognized for the difference between the carrying amount and the greater of value in use and fair value less costs to sell of a long-lived asset. Reversals of impairment losses are recognized in the periods the reversals occur. When an impairment loss reverses in a subsequent period, the carrying amount of the related long-lived asset is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss be recognized for the asset previously. Reversal of impairment losses is not permitted under Canadian GAAP.

Measurement of reclamation and closure cost obligations

Under IFRS, the Company's obligation for reclamation and closure costs is measured based on management's best estimate of future expenditures required to settle the obligation at the balance sheet date, discounted using the applicable country-specific risk free rates. Under Canadian GAAP, this obligation is measured based on the fair value of future estimated expenditures using quoted market prices where applicable, discounted using the Company's credit-adjusted risk free rate.

Property and equipment

Under IFRS, the Company will be required to apply componentization concepts to its property and equipment, and will be required to perform an annual review of the estimates of useful lives, residual values and depreciation methods, in addition to the annual review for impairment. The Company expects to use only the historical cost accounting method to value its assets under IFRS.

Provisions and contingencies

Under IFRS, contingent assets and liabilities must be assessed in legal and constructive terms and are required to be recognized if they are probable (defined as 'more likely than not' or greater than 50%). The Company continues to assess its provisions and contingencies under the terms of this standard.

Presentation and disclosure

The presentation, including disclosures, of the Company's consolidated financial statements will change as a result of implementing the IFRS presentation and disclosure requirements. These changes could result in significant differences in the presentation of the Company's consolidated balance sheet, statement of operations, shareholders' equity and cash flows. In addition, it is expected that the Company will disclose additional information in the notes to the consolidated financial statements in order to comply with the requirements of IFRS.

Taxes

The Company expects differences in the accounting for income taxes and continues to assess the potential impact under IFRS.

Accounting processes, internal controls procedures, and information technology systems

During 2010 and 2011, the Company also performed a high level analysis of the impact of IFRS on the Company's accounting processes, internal controls procedures, and information technology systems. Based on this review, management has identified certain matters that will require prospective attention.

During 2011, the Company will complete the key activities related to the conversion, including the following:

- Prepare the opening consolidated balance sheet as of January 1, 2010;
- Prepare the consolidated financial statements and notes thereto;
- Determine the accounting policies and transition elections;
- Consult with the Company's subsidiaries regarding the transition; and
- Obtain appropriate training for the Company's staff.

The Company has informed the audit committee of management's plans and decisions to date, and the Company continues to provide the audit committee with updates as the conversion project progresses.

Business Risks and Uncertainties

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

- The Company's business is at a similar stage to that of a recently formed company with no operating history, which makes it difficult to evaluate its business prospects;
- The Company cannot be certain that it will continuously meet all requirements to maintain the Production License;
- The Company cannot be certain that current expected expenditures and completion/testing programs will be realized;
- The Company will have substantial capital requirements that, if not met, may hinder its growth and operations;
- The Company might not be able to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them, which could cause the Company to incur losses;
- The Company might incur debt in order to fund its exploration and development activities, which would continue to reduce its financial flexibility and could have a material adverse effect on the Company's business, financial condition or results of operation;
- Shortages of rigs, equipment, supplies and personnel could delay or otherwise adversely affect the Company's cost of operations or its ability to operate according to its business plans;
- Resource estimates depend on many assumptions that may turn out to be inconclusive, subject to varying interpretations, or inaccurate;

- The value of the Common Shares might be affected by matters not related to the Company's own operating performance for reasons that include the following:
    - general economic conditions in Australia, Canada, Hungary, the United States and globally;
    - industry conditions, including fluctuations in the price of petroleum and natural gas;
    - governmental regulation of the petroleum and natural gas industry, including environmental regulation;
    - fluctuation in foreign exchange or interest rates;
    - liabilities inherent in petroleum and natural gas operations;
    - geological, technical, drilling and processing problems;
    - unanticipated operating events which can reduce production or cause production to be shut-in or delayed;
    - failure to obtain third party consents and approvals, when required;
    - stock market volatility and market valuations;
    - competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
    - the need to obtain required approvals from regulatory authorities;
    - Hungarian and worldwide supplies and prices of and demand for petroleum and natural gas;
    - political conditions and developments in Hungary and Australia;
    - political conditions in petroleum and natural gas producing regions;
    - revenue and operating results failing to meet expectations in any particular period;
    - investor perception of the petroleum and natural gas industry;
    - limited trading volume of Common Shares;
    - change in environmental and other governmental regulations;
    - announcements relating to the Company's business or the business of its competitors;
    - the Company's liquidity; and
    - the Company's ability to raise additional funds.
- The Company might not be able to obtain necessary approvals from one or more Hungarian and/or Australian government agencies, surface owners, or other third parties;
- Drilling for and producing petroleum and natural gas are high-risk activities with many uncertainties that could adversely affect the Company's business, financial condition or results of operations;
- Competition in the petroleum and natural gas industry is intense, and many of the Company's competitors have greater financial, technological and other resources than the Company does, which may adversely affect its ability to compete;

- Political instability or fundamental changes in the leadership or in the structure of the governments in the jurisdictions in which the Company operates could have a material negative impact on the Company;
- Market conditions or operation impediments may hinder the Company's access to petroleum and natural gas markets or delay its production;
- A substantial or extended decline in petroleum and natural gas prices may adversely affect the Company's ability to meet its capital expenditure obligations and financial commitments;
- The Company may enter into currency hedging agreements but may not be able to hedge against all such risks;
- The Company is subject to complex laws and regulations, including environmental regulations, which can have a material adverse effect on the cost, manner or feasibility of doing business;
- The loss of the Company's chief executive officer or other of the Company's key management and technical personnel or its inability to attract and retain experienced technical personnel could adversely affect the Company's ability to operate;
- The Company does not insure against all potential operating risks. It might incur substantial losses and be subject to substantial liability claims of its petroleum and natural gas operations; and
- To the extent that the Company establishes petroleum and natural gas reserves, it will be required to replace, maintain or expand its petroleum and natural gas reserves in order to prevent its reserves and production from declining, which would adversely affect cash flows and income.

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

Management's Responsibility for MD&A

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

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