FALCON OIL & GAS LTD.

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

The following management's discussion and analysis (the "**MD&A**") was prepared as at November 20, 2012 and is management's assessment of Falcon Oil & Gas Ltd.'s ("**Falcon**") financial and operating results and provides a summary of the financial information of the Company for the three and nine months ended September 30, 2012. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2012 and 2011, and the audited consolidated financial statements and MD&A for the year ended December 31, 2011.

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**") and Falcon Oil & Gas Ireland Ltd (**"Falcon Ireland"**) (collectively, the "**Company**").

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2011 dated April 30, 2012 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 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 International Financial Reporting Standards ("**IFRS**").

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, Dublin, Ireland, Budapest, Hungary and Sydney, Australia. The Company's registered office is located at 810-675 West Hastings Street, Vancouver, British Columbia, Canada V6B 1N2. On October 2, 2012, the Company announced that further to the communication on June 18, 2012, the Denver office had been closed on September 28, 2012 and the headquarters had been moved to Dublin, Ireland.

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), Australia and South Africa.

Beetaloo Basin, Northern Territory, Australia

Falcon Australia is the registered owner of four exploration permits ("the **Permits**"), comprising 7,000,000 acres in the Beetaloo Basin, Northern Territory, Australia.

The Permits are subject to a government royalty of 10% and non-government royalties of 13%-14%.

Hess Participation Agreement

In June 2011, Falcon Australia and Hess Australia (Beetaloo) Pty Ltd. ("**Hess**") closed on an Evaluation and Participation Agreement (the "**E&P Agreement**"). Under the terms of the E&P Agreement, Hess has the exclusive right to conduct operations for the exploration, drilling, development and production of hydrocarbons from three of the four Permits excluding an area comprising 100,000 acres surrounding the Shenandoah-1 well (the "**Area of Interest**"). Initially, Hess had agreed to acquire seismic data, at its sole cost of at least $40.0 million, over the Area of Interest within 18 months of the execution of the E&P Agreement. After acquiring the seismic data, Hess shall have the right to acquire a 62.5% working interest in the Area of Interest. If Hess acquires the working interest, they commit to drill and evaluate five exploration wells at their sole cost, one of which must be a horizontal well. All costs to plug and abandon the five exploration wells will also be borne solely by Hess. The drilling and evaluation of the five exploration wells must meet the minimum work requirements of the work program. On September 10, 2012, Falcon Australia obtained Northern Territory Department of Resources ("**DoR**") approval for a 12 month extension of the Permits until December 31, 2013. Hess has agreed, subject to Hess proceeding to the "development phase", to carry Falcon, on the first development well, up to a gross cost of US$10 million. Costs to drill wells after the five exploration wells and the first development well will be borne 62.5% by Hess and 37.5% by Falcon Australia. Under a revised work program approved by the Northern Territory of Australia Government, Department of Resources on September 9, 2012, the Company is obligated to complete a minimum work program of $27,500,000 before the end of 2013, of which $25,900,000 will be borne by Hess as part of the acquisition of seismic under the E&P Agreement.

Operational Highlights

As of September 30, 2012, Hess has acquired over 2,600km of the 3,600 km of the 2D seismic program under the E&P Agreement. Hess continues to work in acquiring more 2D seismic in order to complete the work program by year end. The cost of the program, at the sole cost of Hess, has increased from the original $40 million to an anticipated $55 million.

Falcon Australia is in the process of finalizing a seismic acquisition program in EP99 for 2013. This will consist of 150km of 2D seismic data as required in the exploration permit minimum work requirements. This seismic data will provide the necessary information to plan a potential well program in the coming years. The Company has received expressions of interest from a number of third parties regarding a possible farm-out on the combined area including the 100,000 acres around the Shenandoah well, measuring approximately 670,000 acres in total.

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 existing well bores in the Makó Trough are currently under review for potential re-entry and re-completion to test the deeper play in the Szolnok, Endrőd or Basal Conglomerate formations.

Makó Production License Letter of Intent

On June 9, 2011, the Company's wholly owned Hungarian subsidiary, TXM, entered into a Letter of Intent ("**LOI**") with Naftna Industrija Srbije, j.s.c. Novi Sad ("**NIS**") **("Agreement")** for the earning by NIS of an interest in producing the Algyö play within the Makó Production License in Hungary in an area of approximately 995 square kilometers, from a depth of 2,300 meters down to the base of the Algyö Formation (the "**Agreement Area**"). Under the terms of the LOI, TXM will retain all rights within the entire Production License deeper than the base of the Algyö Formation such as the Szolnok and Endröd formations and, upon signing of a participation agreement, NIS would be required to make a $1,500,000 payment to TXM. NIS shall then, at its sole cost, drill, test and complete three wells in the Agreement Area. These wells, to be drilled and tested within 18 months from the effective date of the Agreement, shall be located such that each well tests an independent Algyö prospect. NIS will earn a 50% interest in production from each prospect if the discovery well is tied in and placed on production at the sole cost of NIS. After the drilling of the three wells is completed, NIS has the right to acquire a 50% interest in production from the entire Agreement Area by paying TXM an additional $2,750,000 (the "**NIS earn-in**"). If NIS does not fulfill their drilling obligations under the Agreement, TXM will retain 100 percent interest in the Agreement Area.

If the NIS earn-in is completed, NIS and TXM will share future exploration, appraisal and development costs and production in the Agreement Area in accordance with their participating interests held under a joint operating agreement. TXM shall be the Operator under both the participation agreement and the joint operating agreement.

The Agreement between NIS and TXM was finalized, but not signed on the July 31, 2012, as the transaction remains subject to a favorable ruling of the negotiated tax and accounting treatment by the Hungarian Ministry of Finance. The company has now received the tax ruling, but has appealed one aspect of the tax treatment. The outcome of the appeal is not expected to affect the ability of TXM to sign the Agreement with NIS.

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 TCP covers approximately 7.5 million acres and is located approximately 120 miles northeast of Cape Town, South Africa.

Falcon's application for an Exploration Right covering the TCP was submitted on September 7, 2010 but in April 2011 a moratorium on shale gas exploration was put in place by the South African Government This moratorium was subsequently lifted on the September 7, 2012. Falcon's exploration application does not include any well drilling or fracture stimulation in the first 3 year exploration period and is limited to geophysical data acquisition and the study of drilling opportunities and environmental impact. Upon receipt of an approved Exploration Right, the Company will be required to make a payment of one South African Rand per hectare (a total of approximately $400,000), and obtain an approved work program. An additional payment will be required as a contribution to a South African government sponsored training program in the same amount required to obtain the exploration license.

Canada

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

RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the interim condensed consolidated financial statements for the three and nine months ended September 30, 2012 and 2011, and the audited consolidated financial statements for the year ended December 31, 2011.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended September 30, 2012 as Compared to the Three Months Ended September 30, 2011

The Company reported a net loss of $8,918,000 for 2012 as compared to a net loss of $759,000 for 2011. Changes between the 2012 and 2011 were as follows:

	Three Months Ended September 30,		**Change**	
	2012	**2011**	**$**	**%**
(thousands of US dollars)				
Revenue	$ 1	$ 87	$ (86)	99%
Expenses				
Exploration and evaluation expenses	447	240	207	86%
Production and operating expenses	18	6	12	200%
Depletion and depreciation	57	129	(72)	(56%)
General and administrative	1,670	2,394	(724)	(30%)
Share based compensation	763	430	333	77%
Restructuring expense	62	-	62	-
Other expense	40	-	40	-
Finance expense/ (income)	5,862	(2,353)	8,215	(349%)
	8,919	846	8,073	954%
Net loss and comprehensive loss	$ (8,918)	$ (759)	$ (8,159)	
Net loss and comprehensive loss attributable to:				
Common shareholders	$ (8,891)	$ (645)	$ (8,246)	
Non-controlling interest	(27)	(114)	87	
Net loss and comprehensive loss	$ (8,918)	$ (759)	$ (8,159)	

Exploration and evaluation expenses

Exploration and evaluation expenses increased by $207,000 to $447,000 in 2012 from $240,000 in 2011. Expenses primarily relate to Hungarian properties. These expenses were incurred for the recurring maintenance, and testing of wells while the Company pursues a joint venture partner.

Depletion and depreciation

Depreciation and depletion expense decreased from US$129,000 in 2011 to US$57,000 in 2012. Accelerated depreciation occurred in Quarter 2 2012 in the amount of $114,000 associated with assets that were impacted by the decision to relocate the Company's headquarters from Denver, Colorado to Dublin, Ireland. As a result these assets were fully depreciated at June, 30 2012. No depreciation occurred on these assets in Quarter 3 2012.

Share based compensation

Share based compensation increased by $333,000 to $763,000 in 2012 from $430,000 in 2011. During 2012, an amount of $1,078,000 (US$635,000 in Quarter 3) was recognized as share based compensation due to modification of options previously granted to employees and consultants terminated as a result of the decision to relocate the corporate headquarters. A similar modification did not occur in 2011.

General and administrative expenses

General and administrative expenses decreased by $724,000 to $1,670,000 in 2012 from $2,394,000 in 2011. Significant cost decreases are as follows: legal – $36,000; travel – $60,000; consulting – US$260,000; office and administrative costs – $47,000 and payroll & related costs – $329,000.

Restructuring expense

Restructuring expense of $674,000 was recognized in 2012 (US$62,000 in Quarter 3) as a result of the Company's decision to relocate its corporate headquarters from Denver, Colorado to Dublin, Ireland, and consists of severance and health benefits – $510,000; rent expense, net of sublease – $118,000; and other – $46,000. An additional $1,078,000 (US$635,000 in Quarter 3) was recognized as share based compensation due to modification of options previously granted to employees and consultants terminated as a result of the decision to relocate the corporate headquarters. Depreciation and depletion includes an additional $114,000 related to furniture and equipment in the Denver office. The Denver office closed on September 28, 2012.

Finance (income) / expense

Net Finance (income) / expense decreased from an income of $2,353,000 in 2011 to an expense of $5,862,000. The decrease occurred primarily due to the changes in fair value of derivative instruments. Changes from January 1, 2012 to September 30, 2012 in fair value of the conversion feature on the convertible debt was $212,000, the fair value change on the private placement warrants was $3,562,000 and the fair value change in the Hess warrants was $394,000.

Net loss attributable to non-controlling interest

The amounts reflected in 2012 and 2011 represent the share of Falcon Australia losses attributable to shareholders other than Falcon.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Nine Months Ended September 30, 2012 as Compared to the Nine Months Ended September 30, 2011

The Company reported a net loss of $16,641,000 for 2012 as compared to a net loss of $5,466,000 for 2011. Changes between the 2012 and 2011 were as follows:

	Nine Months Ended September 30,		Change	
(thousands of US dollars)	**2012**	**2011**	**$**	**%**
Revenue	$ 250	$ 384	$ (134)	(34)%
Expenses				
Exploration and evaluation expenses	1,561	938	623	66%
Production and operating expenses	30	25	5	20%
Depletion and depreciation	295	307	(12)	(3%)
General and administrative	4,917	5,974	(1,057)	(17%)
Share based compensation	2,204	1,994	210	11%
Reversal of litigation expense	-	(1,654)	1,654	-
Restructuring expense	674	-	674	-
Other expense	40	-	40	-
Net Finance expense / (income)	7,170	(1,734)	8,904	513%
	16,891	5,850	11,041	
Net loss and comprehensive loss	$ (16,641)	$ (5,466)	$ (11,175)	
Net loss and comprehensive loss attributable to:				
Common shareholders	$ (16,453)	$ (5,253)	$ (11,200)	
Non-controlling interest	(188)	(213)	25	
Net loss and comprehensive loss	$ (16,641)	$ (5,466)	$ (11,175)	

Exploration and evaluation expenses

Exploration and evaluation expenses increased by $623,000 to $1,561,000 in 2012 from $938,000 in 2011. Expenses primarily relate to Hungarian properties. These expenses were incurred for the recurring maintenance, and testing of wells while the Company pursues a joint venture partner.

Depletion and depreciation

Included in depletion and depreciation for the nine months ended September 30, 2012 is an accelerated charge of $114,000 of depreciation associated with assets that were impacted by the decision to relocate the Company's headquarters from Denver, Colorado to Dublin, Ireland.

General and administrative expenses

General and administrative expenses decreased by $1,057,000 to $4,917,000 in 2012 from $5,974,000 in 2011. Significant cost decreases are as follows: legal – $364,000; travel – $170,000; consulting fees – $315,000 and payroll and related costs – $153,000.

Share based compensation

Share based compensation increased by $210,000 to $2,204,000 in 2012 from $1,994,000 in 2011. During 2012, an amount of $1,078,000 was recognized as share based compensation due to modification of options previously granted to employees and consultants being terminated as a result of the decision to relocate the corporate headquarters.

This increase was offset by a reduction in the grant date fair value of 2012 grants relative to the fair value of prior grants.

Reversal of litigation expense

On July 29, 2011, the Company entered into a settlement agreement regarding certain legal matters. The Company recognized a reduction in the related liability of $1,654,000 for settlement of the litigation as of September 30, 2011 which was included in operations for the nine months then ended.

Restructuring expense

Restructuring expense of $674,000 was recognized in 2012 as a result of the Company's decision to relocate its corporate headquarters from Denver, Colorado to Dublin, Ireland, and consists of severance and health benefits – $510,000; rent expense, net of sublease – $118,000; and other – $46,000. An additional $1,078,000 was recognized as share based compensation due to modification of options previously granted to employees and consultants being terminated as a result of the decision to relocate the corporate headquarters. Depreciation and depletion includes an additional $114,000 related to furniture and equipment in the Denver office. The Denver office closed on September 28, 2012.

Finance (income) / expense

Net Finance (income) / expense decreased from an income of $1,734,000 in 2011 to an expense of $7,170,000 in 2011. The decrease occurred primarily due to the changes in the fair value of derivative instruments. Changes from January 1, 2012 to September 30, 2012 in fair value of the conversion feature on the convertible debt was $212,000, the fair value change on the private placement warrants was $3,562,000 and the fair value change in the Hess warrants was $394,000.

Net loss attributable to non-controlling interest

The amounts reflected in 2012 and 2011 represent 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:	**December 31, 2011**	**March 31, 2012**	**June 30, 2012**	**September 30, 2012**
Total assets	$94,901,000	$90,096,000	$87,711,000	$85,513,000
Exploration and evaluation assets	70,977,000	70,690,000	71,683,000	72,209,000
Working capital	13,983,000	11,321,000	688,000	(3,559,000)
Total shareholders' equity	61,822,000	60,590,000	55,701,000	47,665,000
For the three months ended:	**December 31, 2011**	**March 31, 2012**	**June 30, 2012**	**September 30, 2012**
Revenue	9,000	6,000	5,000	1,000
Net loss	(29,361,000)	(1,851,000)	(5,872,000)	(8,918,000)
Net loss attributable to common shareholders	(29,308,000)	(1,760,000)	(5,802,000)	(8,891,000)
Net loss per share-basic and diluted	(0.044)	(0.005)	(0.008)	(0.013)

As of:	**December 31, 2010**	**March 31, 2011**	**June 30, 2011**	**September 30, 2011**
Total assets	$115,409,000	$114,227,000	126,256,000	$124,287,000
Exploration and evaluation assets	98,755,000	99,755,000	82,665,000	91,437,000
Working capital	4,848,000	2,260,000	33,167,000	21,519,000
Total shareholders' equity	86,812,000	84,355,000	90,700,000	90,592,000
For the three months ended:	**December 31, 2010**	**March 31, 2011**	**June 30, 2011**	**September 30, 2011**
Revenue	4,000	8,000	9,000	7,000
Net loss	(80,021,000)	(2,958,000)	(1,749,000)	(759,000)
Net loss attributable to common shareholders	(79,950,000)	(2,900,000)	(1,708,000)	(645,000)
Net loss per share-basic and diluted	(0.133)	(0.005)	(0.002)	(0.001)

The Company is a development stage company, and has limited revenue which is not material. The Company's net loss and net 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, exploration and evaluation costs, 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 nine months ended September 30, 2012, the Company incurred a net loss of $16.6 million and operating cash outflows of $6.8 million and, as at September 30, 2012, had negative working capital of $3.6 million and a deficit of $333.3 million. The Company's ability to continue as a going concern in the short term is dependent upon its ability to raise additional capital from the sale of additional common shares or other debt or equity instruments and/or to secure an industry partner for its operations in Hungary and South Africa. There is no assurance that additional capital will be available to the Company on acceptable terms or at all, or that an industry partner will be secured.

The Company has worked on securing joint venture funding for its operations in the Makó Trough located in Hungary. On June 9, 2011, the Company entered into a Letter of Intent with Naftna Industrija Srbije, j.s.c. Novi Sad ("NIS") for the earning of an interest by NIS in producing the Algyö play within Falcon's Makó production license in Hungary. In July 2012, the Company and NIS concluded negotiations and have filed the proposed agreement with the Hungarian Ministry of Finance ("the Ministry") for a ruling on the tax and accounting treatment of the agreement. The Agreement between NIS and TXM was finalized, but not signed on the July 31, 2012, as the transaction remains subject to a favorable ruling of the negotiated tax and accounting treatment by the Hungarian Ministry of Finance. The company has now received the tax ruling, but has appealed one aspect of the tax treatment. The outcome of the appeal is not expected to affect the ability of TXM to sign the Agreement with NIS.

In the longer term, the recoverability of the carrying value of the Company's long-lived assets in Hungary and Australia 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.

Working Capital

Cash and cash equivalents as at September 30, 2012 were $5,554,000, a decrease of $9,804,000 from $15,358,000 as at December 31, 2011. Working capital as at September 30, 2012 decreased to ($3,559,000) from $13,983,000 as at December 31, 2011.

The decrease to cash and cash equivalents was attributable to cash used in operating and investing activities of $6,826,000 and $2,848,000, respectively.

Restricted cash amounts to $319,000 at September 30, 2012.

Accounts Receivable

Accounts receivable as at September 30, 2012 were $516,000, which includes $436,000 receivable from the Hungarian, Australian and Canadian governments as refunds of VAT, GST and GST, respectively, and other of $80,000.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at September 30, 2012 were $2,303,000, and includes $499,000 for capital expenditures related to the Shenandoah–1 well testing and other Beetaloo Basin activities in Australia, as compared to accounts payable and accrued expenses of $3,836,000 as at December 31, 2011, which included $2,299,000 for capital expenditures related to the Shenandoah–1 well testing in Australia. Included in accounts payable and accrued expenses as at September 30, 2012 is $585,000 of restructuring expenses.

Capital Expenditures

For the nine months ended September 30, 2012, capitalized additions to exploration and evaluation assets were $1,201,000, of which $1,201,000 was in Australia.

Australia

During 2012, costs incurred in Australia were primarily for 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 capital requirements for 2013 and beyond will be dependent upon the evaluation of the results of the 2012 work program.

Hungary

As at September 30, 2012, the Company's 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 $242,182,000**,** including a decommissioning provision of approximately $7,738,000. Total expenditures are prior to an aggregate impairment of $193,111,000 and proceeds of $26,155,000. The net increase in 2012 includes an increase of $30,000 to the decommissioning provision 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.

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, or breach of contract incidental to the operations of its business. 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.

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

Services – Directors and Officers

During 2012, the Company incurred expenses in the amount of $135,000 (2011 – $168,097) to a current director of the Company, Dr. György Szabó, for advisory and consulting services rendered to TXM.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at September 30, 2012 and November 20, 2012:

Class Of Securities	September 30, 2012	November 20, 2012
Common Shares	696,254,500	696,254,500
Stock Options	33,737,000	33,737,000
Private Placement Warrants(1)	65,287,500	65,287,500
Hess Warrants(2)	10,000,000	10,000,000

Notes:

(1) Warrants to purchase 65,287,500 Common Shares at a price of $0.19 (CDN$0.19) per Common Share were issued to shareholders in 2011 in connection with the Falcon Private Placement discussed above, and expire in February and April, 2014.

(2) Warrants to purchase 10,000,000 Common Shares at a price of $0.19 (CDN$0.19) per Common Share were issued to Hess on July 13, 2011 in connection with the Hess transaction discussed above. The Hess Warrants are exercisable commencing on November 14, 2011, and expire on January 13, 2015.

OFF BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

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

NEW ACCOUNTING PRONOUNCEMENTS

Several new standards and amendments to existing standards and interpretations, which have been issued by the International Accounting Standards Board ("**IASB**"), and which are expected to be relevant to the Company are not yet effective and have not been applied in preparing these financial statements. The Company is currently assessing the expected impact, if any, that the adoption of these standards will have on its financial statements, and does not expect adoption of these new standards and interpretations to have a material impact on the financial statements.

BUSINESS RISKS AND UNCERTAINTIES

Risks and uncertainties that could cause the Company's actual results to materially differ from current expectations have not changed from those disclosed in the Company's MD&A as at December 31, 2011.

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 approved the MD&A as presented.