FALCON OIL & GAS LTD.

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2009

The following management's discussion and analysis (the "**MD&A**") was prepared as at May 29, 2009 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 months ended March 31, 2009. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008.

The information provided herein in respect of Falcon includes information in respect of its wholly-owned subsidiaries Mako Energy Corporation ("**Mako**"), a Delaware company, Falcon Oil & Gas USA, Inc. ("**Falcon USA**"), a Colorado company, TXM Oil and Gas Exploration Kft., a Hungarian limited liability company doing business as TXM Energy, LLC ("**TXM**"), TXM Marketing Trading & Service, LLC ("**TXM Marketing**"), a Hungarian limited liability company, FOG-TXM Kft. ("**FOG-TXM**"), a Hungarian limited liability company, JVX Energy S.R.L. ("**JVX**"), a Romanian limited liability company, and Falcon Oil & Gas Australia Pty. Ltd ("**Falcon Australia**"), an Australian company (collectively, the "**Company**").

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2008 dated April 29, 2009, 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**"), Romania, the Commonwealth of Australia ("**Australia**"), 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 and Budapest, Hungary. The Company's registered office is located at 810-675 Hastings Street West, 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 Romania. In 2008, the Company's geographical focus was broadened to also include Australia with the Beetaloo Basin Project acquisition, as discussed below.

Hungary

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

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. Pursuant to a pre-existing agreement between ExxonMobil and MOL Hungarian Oil and Gas Plc. ("**MOL**") and ExxonMobil's rights under the PDA, ExxonMobil sold one-half of its interest in the Contract Area to MOL, effective April 10, 2008. ExxonMobil, MOL and TXM are also parties to a joint operating agreement (the "**JOA**"), dated April 10, 2008, which governs all operations of the Contract Area that are not expressly addressed in the PDA. ExxonMobil is the operator of the Contract Area under the JOA.

The Contract Area consists of approximately 184,300 acres, or 75% of the Company's 246,000-acre Production License. The Contract Area is now owned jointly, with the Company owning a 33% undivided working interest and ExxonMobil and MOL each owning a 33.5% undivided working interest. However, the Company's Hungarian subsidiary, TXM, remains as the registered owner of the Production License under the records of the Hungarian Mining Authority.

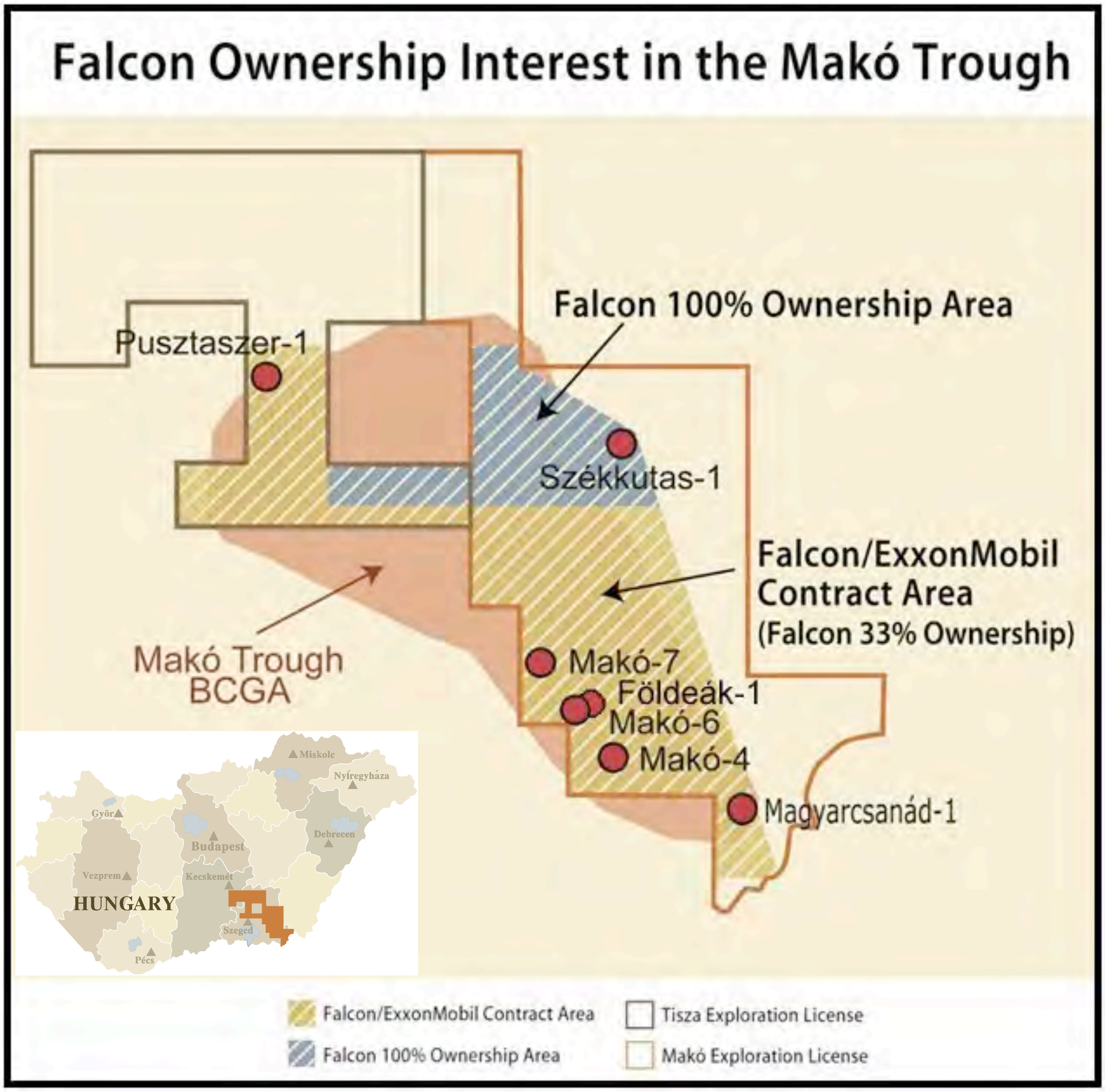
The PDA provided for ExxonMobil and MOL to spend an aggregate of $50 million to conduct an initial work program to test one or more of the Company's existing well bores or drill one or more new wells for such tests (the "**Initial Work Program**"). After the Initial Work Program is completed (expected to be approximately one year after commencement), Falcon and ExxonMobil will evaluate the results over a period which could last up to four months, at which time ExxonMobil has the right to proceed to the next phase (the "**Appraisal Work Program**"). If ExxonMobil elects to proceed forward, ExxonMobil and MOL will pay the Company an aggregate of an additional $50 million and will be required to expend an aggregate of $100 million. A portion of the work commitment may be applied to drill one or more wells based on the optimum location from a Makó Trough-wide standpoint. If ExxonMobil elects not to proceed beyond the Initial Work Program, ExxonMobil will relinquish and reassign all of its rights and ownership in the Contract Area to the Company.

After the Appraisal Work Program is completed, ExxonMobil has another election point – that is, to elect to proceed to full-scale development of the Contract Area (the "**Development Program**"). If ExxonMobil elects to proceed forward, ExxonMobil and MOL will pay the Company an aggregate of an additional $37.5 million, and will expend $37.5 million in a manner consistent with the Appraisal Work Program. If ExxonMobil elects not to proceed to the Development Program, it will have the option to relinquish and reassign all of its rights and ownership in the Contract Area or retain a wellbore interest in the wells drilled during the Appraisal Work Program. In either circumstance Falcon will also resume operatorship of the Contract Area.

MOL has the right to retain and pay for its 33.5% working interest, including MOL's 50% share of the above-described payments to Falcon and work commitments, regardless of ExxonMobil's elections. Subject to the Company's pre-emptive right to acquire and assume ExxonMobil's participating interest upon relinquishment and reassignment by ExxonMobil at either the Appraisal Work Program election point or the Development Program election point, MOL has the option to acquire and assume all obligations related to ExxonMobil's 33.5% initial participating interest at the relevant election point.

The Company will incur no development costs within the Contract Area during the Initial Work Program or the Appraisal Work Program up to the amount stipulated in the PDA. Beginning with the Development Program, the Company, ExxonMobil and MOL will each receive revenues and be responsible for their proportionate share of expenses within the Contract Area (that is, 33% the Company, 33.5% ExxonMobil and 33.5% MOL), under the JOA. In addition to the Company's 33% undivided ownership in the ExxonMobil-operated Contract Area, the Company remains sole owner and operator of 391,400 acres outside the Contract Area boundaries, as well as shallow rights covering 184,300 acres within the Contract Area, as follows:

- **Falcon Lands:** The Company retains 100% ownership in the remaining 25% (61,400 acres) of the Production License that is not part of the Contract Area.
- **Exploration Licenses:** Under the original Exploration Licenses, the Company retains 100% ownership in 330,000 acres which are outside the boundaries of the Production License. The Company also retains 100% ownership in the portions of the Exploration Licenses which are above 2,800 meters within the boundaries of the Production License. The 330,000-acre area outside the Production License and the shallow depths are not part of the Production License.



Operational Highlights for 2009

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

Future Operations

Future operations within the Contract Area are subject to the terms of the PDA, as long as it remains in effect. Future operations within all of the Company's other Hungarian properties are being evaluated and will be determined based on a number of factors.

Australia

On September 30, 2008, the Company and Falcon Australia consummated the acquisition of an undivided 50% working interest in an aggregate 7,000,000 acre prospect in four exploration permits (the "**Permits**") in the Beetaloo Basin, Northern Territory, Australia (the "**Beetaloo Basin Project**") pursuant to the terms of a Purchase and Sale Agreement, as amended on October 31, 2008, (together, the "**Beetaloo PSA**") with PetroHunter Energy Corporation and certain of its affiliates (collectively, "**PetroHunter**"), a non-arm's length party for the purposes of the TSX Venture Exchange ("**TSX-V**").

On May 26, 2009, the Company entered into a Second Purchase and Sale Agreement (the "**Second PSA**") with PetroHunter for the acquisition of an additional undivided 25% working interest in the Beetaloo Basin Project. Under the terms of the Second PSA, the principal consideration being paid by the Company for this transaction is the exchange of the $5,000,000 note receivable from PetroHunter. In addition, the Company has 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 discussed below. The Second PSA also stipulates that, on closing of this transaction, the Company will become operator of the Beetaloo Basin Project, and that PetroHunter and the Company will enter into an escrow agreement which will govern the release of all remaining Falcon common shares previously issued to PetroHunter. The closing of this transaction is subject to the fulfillment of certain closing conditions, as well as the receipt of all required regulatory approvals.

PetroHunter had previously drilled one well in 2007, the Shanandoah-1 well, which was suspended prior to reaching its intended total depth. It is intended that this well will be re-entered in 2009 to drill to the planned total depth. As such, this well is untested and has no associated reserves.

See also "*Transactions with Non-Arm's Length Parties and Related Parties*".

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 Interests.

Romania

In February 2008, the Company was notified that it has been contingently awarded a new concession, the "Anina Concession". The award is subject to negotiation and finalization of a concession agreement for the acreage. There is a minimal work program required under the Anina Concession, and the Company will have the option to withdraw from the concession agreement at the end of each contract year.

United States

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

On February 24, 2009, the Company notified PetroHunter that it would not exercise the Buckskin Mesa Option. In accordance with the Second PSA, the Company will reassign upon closing the undivided 25% working interest in the Five Wells to PetroHunter, and the Company will be relieved of all obligations related to the Five Wells, including reclamation and plugging and abandonment obligations.

See also "*Transactions with Non-Arm's Length Parties and Related Parties*".

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended March 31, 2009 as Compared to the Three Months Ended March 31, 2008

This review of the results of operations should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2009 and 2008, and the audited consolidated financial statements for the year ended December 31, 2008.

RESULTS OF OPERATIONS

The Company reported net loss of $3,788,000 ($0.006 per share) for 2009 as compared to net loss of $4,375,000 ($0.008 per share) for 2008. Significant changes between the 2009 and 2008 year were as follows:

	Three Months Ended March 31,		**Change**	
	2009	**2008**	**$**	**%**
Foreign exchange	$ 496,000	$ (412,000)	$ 908,000	220.4%
Other	(4,284,000)	(3,963,000)	(321,000)	8.1%
Net loss	$ (3,788,000)	$ (4,375,000)	$ 587,000	13.4%

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

	Three Months Ended March 31, 2009	2008	Change $	%
Petroleum revenue	$ 11,000	$ 19,000	$ (8,000)	(42.1)%
Direct costs				
Production costs	1,000	7,000	(6,000)	(85.7)%
Depreciation, depletion and accretion	92,000	94,000	(2,000)	(2.1)%
	93,000	101,000	(8,000)	(7.9)%
Costs and expenses				
Accounting	103,000	124,000	(21,000)	(16.9)%
Depreciation and amortization	108,000	103,000	5,000	4.9%
Consulting	523,000	345,000	178,000	51.6%
Director fees	66,000	67,000	(1,000)	(1.5)%
Investor relations	164,000	160,000	4,000	2.5%
Legal costs	312,000	433,000	(121,000)	(27.9)%
Office and administrative	636,000	529,000	107,000	20.2%
Payroll and related costs	735,000	674,000	61	9.1%
Stock-based compensation	1,392,000	1,382,000	10,000	0.7%
Travel and promotion	328,000	465,000	(137,000)	(29.5)%
	4,367,000	4,282,000	85,000	2.0%
Other income (expense)				
Interest income	152,000	401,000	(249,000)	(62.1)%
Gain (loss) on foreign exchange	496,000	(412,000)	908,000	220.4%
Other income (expense)	13,000	-	13,000	
	661,000	(11,000)	672,000	6109.1%
Net loss and comprehensive loss	$ (3,788,000)	$ (4,375,000)	$ 587,000	13.4%

Petroleum Revenue

Revenue from petroleum and natural gas sales was derived from the sale of natural gas from the Hackett Interests. The Company has not yet realized revenue from its planned operations, and has incurred significant expenditures in connection with its exploration for petroleum and natural gas.

Costs and expenses

General and administrative increased $85,000, or 2.0% from 2008 to 2009. The significant components of changes in general and administrative expenses in 2009, as compared to 2008, were as follows:

- Consulting – the increase resulted from the Company's ongoing efforts to pursue new debt and/or equity financing, improve information technologies, and address increased requirements of the investment in the Beetaloo Basin Project.

- Legal costs – the decrease for services from outside firms in Hungary and North America was attributable to the cost containment measures initiated in the fourth quarter of 2007, and continued throughout the first quarter of 2009.

- Office and administrative – the increase was attributable to certain administrative matters associated with the Company's joint venture with ExxonMobil and MOL in Hungary.

- Travel and promotion – the decrease was attributable to the cost containment measures initiated in the fourth quarter of 2007, and continued throughout the first quarter of 2009.

Other income (expense)

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

- Gain (loss) on foreign exchange – during the first quarter of 2009, the gain on foreign exchange resulted from incurring and/or paying Hungarian operating expenses during a period when the value of the forint was declining relative to the US dollar. During the first quarter of 2008, the loss on foreign exchange was attributable to foreign exchange movements on Canadian denominated cash accounts.

  Compared to the US dollar, the value of the Canadian dollar remained relatively static throughout the first half of 2008; thereafter, the US dollar strengthened relative to the Canadian dollar through the first quarter of 2009. Compared to the US dollar, the value of the Hungarian forint strengthened relative to the US dollar throughout the first half of 2008; thereafter, the US dollar strengthened relative to the Hungarian forint through the first quarter of 2009.

  Substantially all of the Company's financings have been in Canadian dollars; commensurate with the strengthening of the US dollar, the Company has changed the composition of its cash balances to 93% in US dollars, 4% in Canadian dollars, 2% in Hungarian forints and 1% in Euros at March 31, 2009; a significant portion of the Company's operations are in Hungarian forints.

SUMMARY OF QUARTERLY RESULTS

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

As of:	**June 30, 2008**	**September 30, 2008**	**December 31, 2008**	**March 31, 2009**
Total assets	$297,373,735	$306,870,814	$304,472,067	$298,830,658
Petroleum and natural gas properties	211,927,213	240,329,003	237,020,325	237,757,364
Working capital	68,343,352	55,312,512	32,073,983	29,051,915
Total shareholders' equity	281,874,148	297,268,936	281,190,721	278,793,568
For the three months ended:	**June 30, 2008**	**September 30, 2008**	**December 31, 2008**	**March 31, 2009**
Revenue	25,165	22,671	(6,509)	11,091
Net income (loss)	(7,486,272)	(6,104,178)	(17,945,358)	(3,788,342)
Net income (loss) per share-basic and diluted	(0.013)	(0.011)	(0.031)	(0.006)

As of:	**June 30, 2007**	**September 30, 2007**	**December 31, 2007**	**March 31, 2008**
Total assets	$288,263,412	$274,788,840	$308,864,891	$293,967,511
Petroleum and natural gas properties	216,433,277	234,934,259	229,805,480	231,956,676
Working capital	40,586,242	18,293,328	56,746,001	51,593,669
Total shareholders' equity	259,789,896	256,068,735	288,076,167	285,082,821
For the three months ended:	**June 30, 2007**	**September 30, 2007**	**December 31, 2007**	**March 31, 2008**
Revenue	111,842	25,561	44,982	18,420
Net income (loss)	500,233	(4,595,798)	(5,650,292)	(4,375,025)
Net income (loss) per share-basic and diluted	0.001	(0.010)	(0.012)	(0.008)

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

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

Debentures contain certain automatic and optional conversion features, as well as certain redemption features.

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

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

Working Capital

Cash and cash equivalents at March 31, 2009 were $27,121,000, an increase of $1,574,000 from $25,547,000 at December 31, 2008. Working capital at March 31, 2009 was $29,052,000, a decrease of $3,022,000 from $32,074,000 at December 31, 2008.

The increase to cash and cash equivalents of $1,574,000 was attributable to cash provided by operating activities of $2,838,000, offset by cash used in investing activities (solely for capital expenditures, including payment of prior year's accounts payable incurred for petroleum and natural gas properties), financing activities and the effect of exchange rates on cash of $1,105,000 and $14,000 and $145,000, respectively.

Amounts Receivable and Prepaids

Amounts receivable at March 31, 2009 were $8,794,000, which includes $588,000 due from ExxonMobil for amounts due under a services agreement, $5,547,000, $2,510,000 and $82,000 receivable from the Hungarian, Australian and Canadian governments as refunds of VAT, GST and GST, respectively; prepaids include $215,000 for advance payments to Hungarian suppliers.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses at March 31, 2009 were $14,667,000, which includes $329,000 for capital expenditures related to the Company's Hungarian operations, as compared to accounts payable and accrued expenses of $17,996,000 at December 31, 2008, which includes $624,000 for capital expenditures related to the Company's Hungarian operations.

Capital Expenditures

For the three months ended March 31, 2009, the Company incurred $744,000 for additions to its petroleum and natural gas properties; and made cash payments on all petroleum and natural gas properties of $1,038,000 of which $624,000 represented amounts incurred and reflected in accounts payable and accrued expenses at December 31, 2008. During the comparable 2008 period, the Company incurred $2,161,000, of which $2,134,000 was for its properties in Hungary.

The significant costs for 2009 in Hungary were for well maintenance for the six existing well bores. The significant costs for 2008 were for specialized processing and evaluation of the seismic and well data previously acquired in 2007 and well maintenance for the six existing well bores.

As of March 31, 2009, the Company's net cumulative expenditures for exploration under the Licenses, including the acquisition cost of the Licenses, seismic testing, drilling of exploratory wells, and initial testing and completion of wells was approximately $211,507,000, including an asset retirement obligation of approximately $4,583,000 for the six wells drilled.

Furniture and equipment at March 31, 2009 was $3,232,000 as compared to $3,165,000 at December 31, 2008.

The Company's activity in Hungary for 2009 has been focused on resource evaluation. With the completion of the strategic partnership initiative and ExxonMobil becoming operator of the Contract Area, the Company will be re-evaluating its operation plans and evaluation studies. ExxonMobil, MOL and the Company reached agreement on the Initial Work Program which ExxonMobil has been implementing as Operator of the Contract Area. The Company's activity in Australia for 2009 was focused on administrative matters prior to exploration activities that the Company believes should commence later in the year.

The Company's future capital requirements will be dependent upon, among other things, the evaluation of the Hungarian properties, and the future testing and completion plan developed by the Company, ExxonMobil and MOL, including the Development Plan. The Company will continue to evaluate the potential for further activity in the Makó Trough in both the Falcon Lands and its exploration opportunities outside of the Production License. The Company's requirements for additional capital are dependent upon its future operating plans, including the results of the Initial Work Program.

The Company's future capital requirements will also be dependent upon the evaluation of the Beetaloo Basin Project described above.

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.

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 TSX Venture Exchange, whose largest single shareholder is also the President and CEO of the Company. The Company acquired working interests from PetroHunter in the Beetaloo Basin Project and the Buckskin Mesa Project.

On October 1, 2008, the Company agreed to lend PetroHunter $5,000,000. Under the terms of the loan agreement, as amended on December 10, 2008, funds were advanced by the Company directly to certain creditors and vendors of PetroHunter who assigned leases in, provided goods to, or rendered services for the Beetaloo Basin Project and Buckskin Mesa Project. The loan bears interest at the rate of 10% per annum, and interest-only payments are due monthly. The maturity date is April 30, 2009. The collateral for the loan is as follows: (a) first mortgage on the Five Wells; (b) of the 28,888,888 Common Shares issued to PetroHunter in connection with the acquisition of the Beetaloo Basin: (1) 14,500,000 are held in escrow, with the proceeds from the sale to be irrevocably directed to the Company and applied on the account of the indebtedness; (2) 11,600,000 are available to PetroHunter as collateral for loans from third parties, and if PetroHunter obtains any such third party loans, the proceeds thereof shall be applied as follows: the first $4,000,000 shall be for PetroHunter's use as working capital in the normal course of business, the next $2,000,000 shall be paid to the Company to reduce the outstanding principal balance of the loan, and thereafter the proceeds shall be distributed successively 50% to each party until the earlier of being fully applied or until all accrued and unpaid interest and principal under the loan is fully paid; and (3) the remaining 2,788,888 are held in escrow and may be sold by PetroHunter, in which case the proceeds of any such sale shall be distributed solely to PetroHunter (with none distributed to the Company). If the loan is not paid by April 30, 2009, in addition to all other remedies available to the Company, PetroHunter shall, upon the request of the Company, resign as operator under the joint operating agreement executed in connection with the Beetaloo Basin PSA and shall appoint (or if applicable, vote in favor of) the Company as operator under that joint operating agreement.

On May 26, 2009, the Company entered into the Second PSA for the acquisition of an additional undivided 25% working interest in the Beetaloo Basin Project. Under the terms of the Second PSA, the principal consideration being paid by the Company for this acquisition is the exchange of the $5,000,000 note receivable from PetroHunter. In addition, the Company has agreed to pay certain vendors who had provided goods or services for the Beetaloo Basin in exchange for inventory and operator bonds of approximately the same value. The Second PSA also stipulates that, on closing of this transaction, the Company will become operator of the Beetaloo Basin project, and that PetroHunter and the Company will enter into an escrow agreement which will govern the release of all remaining common shares previously issued to PetroHunter. Additionally, under the Second PSA, the Company will reassign upon closing its undivided 25% working interest in the Five Wells situated within the Buckskin Mesa Project to PetroHunter, and the Company will be relieved of all obligations related to the Five Wells, including reclamation and plugging and abandonment obligations. The closing of this transaction is subject to the fulfillment of certain closing conditions, as well as the receipt of all required regulatory approvals.

During 2009, the Company incurred $45,000 (2008-$45,000) to a current director of the Company, Dr. György Szabó, for advisory and consulting services rendered to TXM; and $36,000 (2008- $88,000) in consulting fees to a current director of the Company, Daryl Gilbert, for advisory and consulting services rendered to Falcon. David Brody, the Company's Corporate Secretary and General Counsel, is a partner of Patton Boggs LLP, a US law firm that provides US legal advice to the Company. The Company has not recorded any amounts paid to Patton Boggs LLP as transactions with a related party because Mr. Brody has not received any remuneration from Patton Boggs LLP since his appointment as Corporate Secretary and General Counsel of Falcon.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at March 31, 2009 and May 29, 2009:

Class Of Securities	March 31, 2009	May 29, 2009
Common Shares	595,799,301	595,799,301
Stock Options	46,875,000	46,875,000
December Underwriters' Warrants(1)	4,288,750	4,288,750

Notes:

(1) Warrants to purchase 6,000,000 Falcon common shares at a price of $0.39 (CDN$0.40) per share were issued to the underwriters in December 2007 in connection with the offering completed in December 2007, and expire two years after the date of issuance.

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

The critical accounting policies adopted by the Company have not changed from those described in the Management's Discussion and Analysis for the year ended December 31, 2008.

CHANGES IN ACCOUNTING POLICIES

(a) Goodwill and intangible assets

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

NEW CANADIAN ACCOUNTING STANDARDS

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

(a) International Financial Reporting Standards

The AcSB has determined that Canadian accounting standards for publicly-listed companies will converge with International Financial Reporting Standards ("**IFRS**") effective for interim and annual periods beginning on and 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 to be differences between Canadian generally accepted accounting principles 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 three months ended March 31, 2009, and the Company is not expected to adopt any new accounting policies during the remainder of 2009.

Business Risks and Uncertainties

The business risks and uncertainties affecting the Company have not changed from those described in the MD&A for the year ended December 31, 2008.

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.