FALCON OIL & GAS LTD.

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010

The following management's discussion and analysis (the "**MD&A**") was prepared as at November 24, 2010 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, 2010. This MD&A should be read in conjunction with the unaudited consolidated financial statements for the three and nine months ended September 30, 2010 and 2009, and the audited consolidated financial statements for the year ended December 31, 2009.

The information provided herein in respect of Falcon includes information in respect of its wholly-owned 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, FOG-TXM Kft., 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, 2009 dated April 29, 2010, 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 Exploration Licenses expired on December 31, 2009, and are not eligible for extension. However, under Hungarian laws applicable to oil and gas exploration licenses, the licensee has the first priority in obtaining a mining plot covering all or part of the area, but is not guaranteed that it will receive a mining plot. The process requires the filing of a "Closing Report" within six months from the expiration of the license, and the filing of an application for the mining plot within the second six-month period. The Company has filed a Closing Report within the required period, and is considering filing an application for the mining plot by year end.

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

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 Algyo, Szolnok, Endrod 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 will 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 the first nine months of 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 $10,100,000 and $5,000,000 during the years ending December 31, 2011 and 2012, respectively.

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 minimum payment of up to $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.

RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2010 and 2009, and the audited consolidated financial statements for the year ended December 31, 2009.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended September 30, 2010 as Compared to the Three Months Ended September 30, 2009

The Company reported net loss of $60,533,000 ($0.101 per share) for 2010 as compared to net loss of $4,769,000 ($0.008 per share) for 2009. Significant changes between the 2010 and 2009 year were as follows:

	Three Months Ended September 30,		**Change**	
	2010	**2009**	**$**	**%**
Impairment of petroleum and natural gas properties	$ 51,000,000	$ -	$(51,000,000)	
Write off of receivable	4,345,000	-	(4,345,000)	
Writedown of inventory available for sale	967,000	-	(967,000)	
General and administrative	2,259,000	3,226,000	967,000	30.0%
Stock based compensation	633,000	1,611,000	978,000	60.7%
Interest expense	372,000	331,000	(41,000)	(12.4)%
(Gain) loss on foreign exchange	525,000	(518,000)	(1,043,000)	(201.4)%
Other	432,000	119,000	(313,000)	(263.0)%
	60,533,000	4,769,000	(55,764,000)	(1,169.3)%
Net loss and comprehensive loss attributable to:				
Owners of the Company	$ (60,533,000)	$ (4,769,000)	$(55,764,000)	(1,169.3)%

The following is a summary of the results of operations for the three months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Change	
	2010	2009	$	%
Petroleum revenue	$ 12,000	$ 7,000	$ 5,000	71.4%
Costs and expenses				
Accounting	110,000	195,000	85,000	43.6%
Consulting	181,000	340,000	159,000	46.8%
Director fees	46,000	66,000	20,000	30.3%
Investor relations	40,000	188,000	148,000	78.7%
Legal costs	383,000	354,000	(29,000)	(8.2)%
Office and administrative	556,000	665,000	109,000	16.4%
Payroll and related costs	340,000	1,007,000	667,000	66.2%
Travel and promotion	264,000	411,000	147,000	35.8%
Joint venture marketing	339,000	-	(339,000)	
Total general and administrative	2,259,000	3,226,000	967,000	30.0%
Stock-based compensation	633,000	1,611,000	978,000	60.7%
Production costs	5,000	11,000	6,000	54.5%
Depreciation, depletion, amortization and accretion	205,000	214,000	9,000	4.2%
Impairment of petroleum and natural gas properties	51,000,000	-	(51,000,000)	
Write off of receivable	4,345,000	-	(4,345,000)	
Writedown of inventory available for sale	967,000	-	(967,000)	
	59,414,000	5,062,000	(54,352,000)	(1073.7)%
Other income (expense)				
Interest expense	(372,000)	(331,000)	(41,000)	(12.4)%
Interest income	8,000	40,000	(32,000)	(80.0)%
Gain (loss) on foreign exchange	(525,000)	518,000	(1,043,000)	(201.4)%
Other income (expense)	(334,000)	59,000	(393,000)	(666.1)%
	(1,223,000)	286,000	(1,509,000)	(527.6)%
Net loss and comprehensive loss	$ (60,625,000)	$ (4,769,000)	$ (55,856,000)	(1,171.2)%
Net loss and comprehensive loss attributable to:				
Owners of the Company	$ (60,533,000)	$ (4,769,000)	$ (55,764,000)	(1,169.3)%
Non-controlling interest	(92,000)	-	(92,000)	
Net loss and comprehensive loss	$ (60,625,000)	$ (4,769,000)	$ (55,856,000)	(1,171.2)%

Costs and expenses

General and administrative costs decreased $967,000 to $2,259,000 in 2010 from $3,226,000 in 2009. The significant components of changes in general and administrative expenses in 2010, as compared to 2009, were as follows:

- Accounting – the decrease was attributable to cost containment measures.

- 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 other 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, and the elimination of certain Company personnel.

- Legal costs – the increase was attributable to 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, offset by cost containment measures with respect to external counsel, primarily in Hungary, and through elimination of internal counsel.

- 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 in Australia and joint venture partner endeavours, which started to diminish during the latter part of the second quarter of 2010.

- Joint venture marketing – the increase in 2010 was attributable to costs associated with the Company's efforts to identify and secure a joint venture partner for its Beetaloo Basin Project.

Impairment of petroleum and natural gas properties

As of September 30, 2010, the Company determined that the carrying value of the Hungarian petroleum and natural gas properties exceeded its estimated recoverable amount. Consequently, 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 as of September 30, 2010.

Write off of receivable

Associated with its property in Hungary, 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 as of September 30, 2010.

Writedown of inventory available for sale

At September 30, 2010, the Company determined that the carrying value of its inventory available for sale exceeded its net realizable value and, consequently, charged to operations $967,000 as a write down of inventory for sale with a corresponding reduction to inventory available for sale in the consolidated balance sheet as of September 30, 2010.

Other income (expense)

- Interest expense – the increase was attributable to the Company's financing activities resulting in the issuance of convertible debentures in June 2009, and reflects interest on the convertible debentures, accretion of the equity component of the convertible debentures, and amortization of deferred financing costs. During 2009, interest expense of $348,000 was capitalized to petroleum and natural gas properties, specifically the Beetaloo Basin Project.

- 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 2009, the gain 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 declining relative to the US dollar. During 2010, the impact of foreign exchange was due to the weakening US dollar.

  The value of the US dollar strengthened relative to the Canadian dollar throughout the first quarter of 2009, but weakened for the remainder of the year. During 2010, the US dollar experienced periods of strengthening and weakening, and ended the period slightly below where it began relative to the Canadian dollar.

  During the majority of the first half of 2010, the US dollar strengthened relative to the Australian dollar, and has weakened throughout the third quarter of 2010.

  The value of the US dollar strengthened relative to the Hungarian forint throughout the first quarter of 2009, but weakened for the majority of the remainder of the year. From December 2009 through the second quarter of 2010, the US dollar has strengthened, but weakened during the third quarter of 2010.

  Substantially all of the Company's financings have been in Canadian dollars; the composition of its cash balances was 43% in US dollars, 23% in Canadian dollars, 6% in Hungarian forints and 28% in Australian dollars at September 30, 2010; a significant portion of the Company's operations are in Hungarian forints and Australian dollars.

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.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Nine Months Ended September 30, 2010 as Compared to the Nine Months Ended September 30, 2009

The Company reported net loss of $71,949,000 ($0.119 per share) for 2010 as compared to net loss of $12,251,000 ($0.021 per share) for 2009. Significant changes between the 2010 and 2009 year were as follows:

	Nine Months Ended September 30,		**Change**	
	2010	**2009**	**$**	**%**
Impairment of petroleum and natural gas properties	$ 51,000,000	$ 45,000	$ (50,955,000)	
Write off of receivable	4,345,000	-	(4,345,000)	
Writedown of inventory available for sale	967,000	-	(967,000)	
General and administrative	8,861,000	9,649,000	788,000	8.2%
Stock-based compensation	3,819,000	4,573,000	754,000	16.5%
Interest expense	1,707,000	331,000	(1,376,000)	(415.7)%
(Gain) loss on foreign exchange	683,000	(2,501,000)	(3,184,000)	(127.3)%
Other	567,000	154,000	(413,000)	(268.2)%
	71,949,000	12,251,000	(59,698,000)	(487.3)%
Net loss and comprehensive loss attributable to:				
Owners of the Company	$ (71,949,000)	$ (12,251,000)	$ (59,698,000)	(487.3)%

The following is a summary of the results of operations for the nine months ended September 30, 2010 and 2009:

	Nine Months Ended September 30,		Change	
	2010	2009	$	%
Petroleum revenue	$ 24,000	$ 27,000	$ (3,000)	(11.1)%
Costs and expenses				
Accounting	530,000	504,000	(26,000)	(5.2)%
Consulting	692,000	1,163,000	471,000	40.5%
Director fees	157,000	198,000	41,000	20.7%
Investor relations	213,000	595,000	382,000	64.2%
Legal costs	721,000	1,110,000	389,000	35.0%
Office and administrative	1,649,000	2,010,000	361,000	18.0%
Payroll and related costs	1,630,000	2,752,000	1,122,000	40.8%
Travel and promotion	1,284,000	1,317,000	33,000	2.5%
Joint venture marketing	1,985,000	-	(1,985,000)	
Total general and administrative	8,861,000	9,649,000	788,000	8.2%
Stock-based compensation	3,819,000	4,573,000	754,000	16.5%
Production costs	14,000	30,000	16,000	53.3%
Depreciation, depletion, amortization and accretion	636,000	627,000	(9,000)	(1.4)%
Impairment of petroleum and natural gas properties	51,000,000	45,000	(50,955,000)	
Write off of receivable	4,345,000	-	(4,345,000)	
Writedown of inventory available for sale	967,000	-	(967,000)	
	69,642,000	14,924,000	(54,718,000)	(366.6)%
Other income (expense)				
Interest expense	(1,707,000)	(331,000)	(1,376,000)	(415.7)%
Interest income	39,000	307,000	(268,000)	(87.3)%
Gain (loss) on foreign exchange	(683,000)	2,501,000	(3,184,000)	(127.3)%
Other income (expense)	(446,000)	169,000	(615,000)	(363.9)%
	(2,797,000)	2,646,000	(5,443,000)	(205.7)%
Net loss and comprehensive loss	$ (72,415,000)	$ (12,251,000)	$ (60,164,000)	(491.1)%
Net loss and comprehensive loss attributable to:				
Owners of the Company	$ (71,949,000)	$ (12,251,000)	$ (59,698,000)	(487.3)%
Non-controlling interest	(466,000)	-	(466,000)	
Net loss and comprehensive loss	$ (72,415,000)	$ (12,251,000)	$ (60,164,000)	(491.1)%

Costs and expenses

General and administrative costs decreased $788,000 to $8,861,000 in 2010 from $9,649,000 in 2009. 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.

- 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 other 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, and the elimination of certain Company personnel.

- Legal costs – the decrease was attributable to cost containment measures with respect to external counsel, primarily in Hungary, and through elimination of internal counsel.

- Office and administrative – the decrease was attributable to certain one-time costs incurred in Hungary during 2009. On July 31, 2010, the Company vacated its existing office space in Budapest, Hungary, and relocated to another property. This has 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 an increase resulting from the Company's financing activities in Australia and joint venture partner endeavours.

- Joint venture marketing – the increase in 2010 was attributable to costs associated with the Company's efforts to identify and secure a joint venture partner for its Beetaloo Basin Project.

Impairment of petroleum and natural gas properties

As of September 30, 2010, the Company determined that the carrying value of the Hungarian petroleum and natural gas properties exceeded its estimated recoverable amount. Consequently, 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 as of September 30, 2010.

Write off of receivable

Associated with its property in Hungary, 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 as of September 30, 2010.

Writedown of inventory available for sale

At September 30, 2010, the Company determined that the carrying value of its inventory available for sale exceeded its net realizable value and, consequently, charged to operations $967,000 as a write down of inventory for sale with a corresponding reduction to inventory available for sale in the consolidated balance sheet as of September 30, 2010.

Other income (expense)

- Interest expense – the increase was attributable to the Company's financing activities resulting in the issuance of convertible debentures in June 2009, and reflects interest on the convertible debentures, accretion of the equity component of the convertible debentures, and amortization of deferred financing costs. During 2009, interest expense of $348,000 was capitalized to petroleum and natural gas properties, specifically the Beetaloo Basin Project.

- 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 2009, the gain 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 declining relative to the US dollar. During 2010, the impact of foreign exchange was due to the weakening US dollar.

  The value of the US dollar strengthened relative to the Canadian dollar throughout the first quarter of 2009, but weakened for the remainder of the year. During 2010, the US dollar experienced periods of strengthening and weakening, and ended the period slightly below where it began relative to the Canadian dollar.

  During the majority of the first half of 2010, the US dollar strengthened relative to the Australian dollar, and has weakened throughout the third quarter of 2010.

  The value of the US dollar strengthened relative to the Hungarian forint throughout the first quarter of 2009, but weakened for the majority of the remainder of the year. From December 2009 through the second quarter of 2010, the US dollar has strengthened, but weakened during the third quarter of 2010.

  Substantially all of the Company's financings have been in Canadian dollars; the composition of its cash balances was 43% in US dollars, 23% in Canadian dollars, 6% in Hungarian forints and 28% in Australian dollars at June 30, 2010; a significant portion of the Company's operations are in Hungarian forints and Australian dollars.

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:	**December 31, 2009**	**March 31, 2010 (*)**	**June 30, 2010**	**September 30, 2010**
Total assets	$242,999,051	$239,415,012	$249,210,640	$194,747,199
Petroleum and natural gas properties	207,889,291	208,888,941	221,248,083	175,514,433
Working capital	18,175,441	13,713,446	14,124,945	5,711,412
Total shareholders' equity	230,178,690	225,892,056	236,053,267	176,058,325
For the three months ended:	**December 31, 2009**	**March 31, 2010**	**June 30,2010**	**September 30, 2010**
Revenue	41,113	12,188	184	11,924
Net loss	(51,677,321)	(5,667,648)	(5,748,701)	(60,532,222)
Net loss per share-basic and diluted	(0.086)	(0.009)	(0.010)	(0.100)

As of:	**December 31, 2008**	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**
Total assets	$304,472,067	$298,830,658	$294,000,253	$292,435,351
Petroleum and natural gas properties	237,020,325	237,757,364	245,704,299	250,348,187
Working capital	32,073,983	29,051,915	33,156,259	27,514,066
Total shareholders' equity	281,190,721	278,793,568	282,903,353	280,973,242
For the three months ended:	**December 31, 2008**	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**
Revenue	(6,509)	11,091	9,157	7,184
Net loss	(17,945,358)	(3,788,342)	(3,693,105)	(4,769,636)
Net loss per share-basic and diluted	(0.031)	(0.006)	(0.006)	(0.009)

(*) 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 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, 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

Falcon Oil & Gas Ltd. Private Placement

On November 24, 2010, Falcon entered into an agreement to raise up to CDN$63 million in the form of units ("**Units**") priced at CDN$0.15 per Unit (the "**Offering Price**") by way of a private placement (the "**Offering**") with two new investors, as well as certain existing shareholders of Falcon. The Offering Price represents an 18% premium to the last month's average trading price. Each Unit will consist of one common share in the capital of Falcon (each a "**Common Share**") and three quarters (3/4) of one common share purchase warrant (a "**Warrant**"). Each whole Warrant will entitle the holder thereof to acquire one additional Common Share at an exercise price of CDN$0.18, representing a 20% premium to the Offering Price, for a period of three years from the Offering's closing date (the "**Closing Date**"). The proceeds from the Offering will be used to fund Falcon's ongoing capital program and for general corporate purposes.

The Offering is subject to all necessary corporate, regulatory and governmental approvals and is subject to TSXV acceptance for filing. All securities issued will be subject to a four-month hold period from the Closing Date.

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. The July 31, 2010 closing date has been extended to September 30, 2010, and may be terminated earlier at the discretion of Falcon Australia.

In June 2010, Falcon Australia closed on initial gross proceeds from the Offer of $4,896,000, before costs of the offering of $591,000. The proceeds from the Offer are to be utilized for operations in Australia.

As of September 30, 2010, giving effect to the initial closing of the Offer, Falcon has a 73% majority interest in Falcon Australia.

Subsequent to September 30, 2010, and as of November 24, 2010, an additional $1,218,000 of gross proceeds from the Offer has been received, and is being held in escrow by the acting broker, pending release after final regulatory approval.

Going Concern

For the nine months ended September 30, 2010, the Company incurred a net loss of $71,949,000 and, as at September 30, 2010, had a deficit of $206,920,000 and working capital of $5,711,000. The Company has been focused on securing equity financing and a joint venture partner for its operations in the Beetaloo Basin Project and a joint venture partner for its operations in the Makó Trough. The Company's ability to continue as a going concern is dependent upon its ability to raise additional capital to fund its operations, and ultimately to achieve profitable operations through the discovery of economically recoverable reserves. As discussed above, Falcon entered into an agreement to raise up to CDN$63,000,000 in the form of Units. Upon successful completion of the transaction, which is subject to all necessary corporate, regulatory and governmental approvals, including TSXV acceptance of the filing, the Company should have sufficient funds to mitigate its current liquidity weakness, including being able to fund its planned exploration activities in Australia, Hungary and South Africa.

Working Capital

Cash and cash equivalents at September 30, 2010 were $8,413,000, a decrease of $3,391,000 from $11,804,000 at December 31, 2009. Working capital at September 30, 2010 decreased to $5,711,000 from $18,176,000 at December 31, 2009.

The decrease in cash and cash equivalents of $3,391,000 was attributable to cash used in operating activities and investing activities (primarily for capital expenditures, including payment of prior year's accounts payable incurred for petroleum and natural gas properties) of $6,595,000 and $2,697,000, respectively, offset by cash provided by financing activities (primarily from the Falcon Australia private placement and the release of restricted cash) and the effect of exchange rates on cash of $5,570,000 and $331,000, respectively.

Amounts Receivable

Amounts receivable at September 30, 2010 were $1,362,000, which includes $205,000 receivable from a joint interest owner for Australian GST, $935,000 receivable from the Hungarian, Australian and Canadian governments as refunds of VAT, GST and GST, respectively, $162,000 for operator bonds due from the Australian government and other of $60,000.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2010 were $7,062,000, which includes $260,000 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 September 30, 2010 is an estimated liability of $4,741,000 for certain obligations (discussed below in Legal Matters).

Capital Expenditures

For the nine months ended September 30, 2010, capitalized additions to petroleum and natural gas properties were $18,608,000, of which $5,558,000 was in Hungary, including $4,741,000 of non-cash expenses related to certain obligations (discussed below in Legal Matters), $12,675,000 was in Australia (including $11,725,000 of non-cash charges for the acquisition of Sweetpea's 25% working interest in the Beetaloo Basin Project by Falcon Australia) and $345,000 was in South Africa.

Hungary

As at September 30, 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 $219,116,000**,** including an asset retirement obligation of approximately $4,977,000. The significant costs incurred during 2010 in Hungary were $4,741,000 for certain obligation (discussed below in Legal Matters); the remainder of $898,000 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. The Company continues to evaluate the potential for further activity in the Makó Trough in both the Production License and Exploration Licenses, including the testing of the Szolnok and Algyo formations in the Makó 4 well. 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.

The Company's 2010 work commitment has been extended to December 31, 2011, and the capital requirements for the balance of 2010 are anticipated to be costs for additional 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 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.

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, the Company was served with a Complaint by a former vendor of TXM (the "**Vendor**"), claiming that the Company owes the Vendor approximately $3,200,000 plus interest, arising out of a dispute related to TXM's alleged failure to pay for certain oilfield equipment. Falcon and TXM intend 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 will file an appeal to have the lower court order reversed and, if upheld, this would stop all proceedings in the UK. The Company intends to file 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 September 30, 2010 financial statements include an obligation of $4,741,000, including interest and fees, related to this claim that is reflected as a charge to petroleum and natural gas properties (see Note 3) 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 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. On April 23, 2010, Falcon Australia received 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.

Services – Directors and Officers

During 2010, the Company incurred $100,000 (2009 - $135,000) to a current director of the Company, Dr. György Szabó, for advisory and consulting services rendered to TXM; and nil (2009 - $91,000) 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 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 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 September 30, 2010 and November 24, 2010:

Class Of Securities	September 30, 2010	November 29, 2010
Common Shares(1)	602,216,801	602,216,801
Stock Options(1)	25,720,000	25,720,000
June Agents' Warrants(2)	1,250,550	1,250,550

Notes:

(1) On November 10, 2010, the Company entered into a Separation Agreement with a former officer that provided for the issuance of 4,000,000 shares (which have yet to be issued) of the Company's common stock. At that date, the former officer held options to acquire 2,125,000 shares of the Company's common stock; vested options can be exercised and, if not exercised, will be forfeited along with unvested options.

On August 3, 2010, the Company entered into a Settlement Agreement with a former officer that provided for the issuance of 1,000,000 shares (which have yet to be issued) of the Company's common stock. At that date, the former officer held options to acquire 2,250,000 shares of the Company's common stock; all of the options were forfeited. Pursuant to an August 3, 2010 Consulting Services Agreement, on August 30, 2010, the Company issued new options to the former officer to acquire 225,000 shares of the Company's common stock at $0.16 (CDN$0.17) per Common Share.

(2) 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

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, 2009, except for the adopted policy discussed below.

NEW CANADIAN ACCOUNTING STANDARDS

The Accounting Standards Board ("**AcSB**") of the CICA has issued new accounting standards, 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. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Besides Section 1602, 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.

In August 2009, the CICA issued certain amendments to Section 3251, Equity. The amendments apply to entities that have adopted Section 1602, Non-controlling interests ("**Section 1602**"). The amendments require separate presentation on the consolidated statements of operations and comprehensive loss of loss attributable to owners of the Company and those attributable to non-controlling interests. The amendments also require that non-controlling interests be presented separately as a component of equity.

Although not mandatory until the year beginning January 1, 2011, the Company has adopted Sections 1582, 1601 and 1602, and reflected the impact of Section 1602 in its consolidated financial statements. There was no impact as a result of the adoption of Sections 1582 and 1601.

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.

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, the Company commenced an initial 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 the Company began the process of evaluating and selecting appropriate accounting policies and determining 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 a component 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. Falcon has elected to also capitalize borrowing costs under Canadian GAAP; however, different application of the requirements may result in an adjustment.

- 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.

- 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 as allowed under IFRS 1.

Stock based compensation

Under Canadian GAAP, stock based compensation is measured using the fair market value method under which the cost is recognized on a straight-line basis over the vesting period of the underlying security. The Company has not estimated a forfeiture rate for stock options that may not vest; rather the Company accounts for actual forfeitures as they occur.

Under IFRS, stock based compensation will be measured using the fair market value method under which the cost will be recognized on a graded vesting basis over the vesting period of the underlying security. In addition, the Company must estimate a forfeiture rate for stock options that may not vest.

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.

Income taxes

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

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.

Accounting processes, internal controls procedures, and information technology systems

During 2010, 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 2010, the Company plans to complete some of the key activities related to the conversion, including the following:

- Prepare the opening consolidated balance sheet as of January 1, 2010;
- Draft 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 plans to continue to provide the audit committee with updates through 2010 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, Australian 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 approved the MD&A as presented.