FALCON OIL & GAS LTD.

FORM 51-102F1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMER 30, 2008

The following management's discussion and analysis (the "**MD&A**") was prepared as at November 26, 2008 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 nine months ended September 30, 2008. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements for the nine months ended September 30, 2008 and the audited consolidated financial statements for the year ended December 31, 2007.

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., 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**") (collectively the "**Company**").

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended December 31, 2007 dated April 29, 2008, 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 oil 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 oil 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 oil 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 oil and natural gas; industry conditions, including fluctuations in the price of oil and natural gas; governmental regulation of the oil and gas industry, including income tax, environmental and regulatory matters; fluctuation in foreign exchange or interest rates; risks and liabilities inherent in oil 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.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A and the date hereof, the Chief Executive Officer, the Chief Financial Officer and other members of management evaluated the effectiveness of the Company's disclosure controls and procedures, as required by applicable securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A and the date hereof, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 - *Certification of Disclosure in Issuer's Annual and Interim Filings*) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

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 exploration of oil and natural gas, 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 identification, exploration and development of conventional and unconventional oil and gas projects in Central Europe, specifically Hungary and Romania. The geographical focus has been broadened to the United States with the Buckskin Mesa Project (as defined below) acquisition, and to Australia with the Beetaloo Basin (as defined below) acquisition, as discussed below.

Hungary

The Company has achieved three critical milestones during 2008, and through the date hereof as follows:

- Through the Company's efforts to find a strategic partner (announced in June, 2007), on April 10, 2008 the Company and TXM entered into a Production and Development Agreement ("**PDA**") with ExxonMobil Corporation affiliate Esso Exploration International Limited ("**ExxonMobil**").

- Completion of an update to the previously filed (www.sedar.com) August 2006 resource evaluation of the Makó Trough prepared for Falcon by The Scotia Group, Inc. with an effective date of August 15, 2006 (the "**Scotia Report**").

- The repair on the Makó 6 well.

Strategic Partnership with ExxonMobil Corporation

On April 10, 2008, the Company and TXM entered into the PDA with ExxonMobil pursuant to which the Company and ExxonMobil are now joint owners in a specified portion (the "**Contract Area**") of the long term production license granted to the Company on May 21, 2007 (the "**Production License**") from the Hungarian Mining Authority. ExxonMobil operates the Contract Area.

After the parties entered into the PDA and in accordance with its rights under the PDA, ExxonMobil assigned half its interest to MOL, a publicly traded Hungarian oil and gas company.

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.

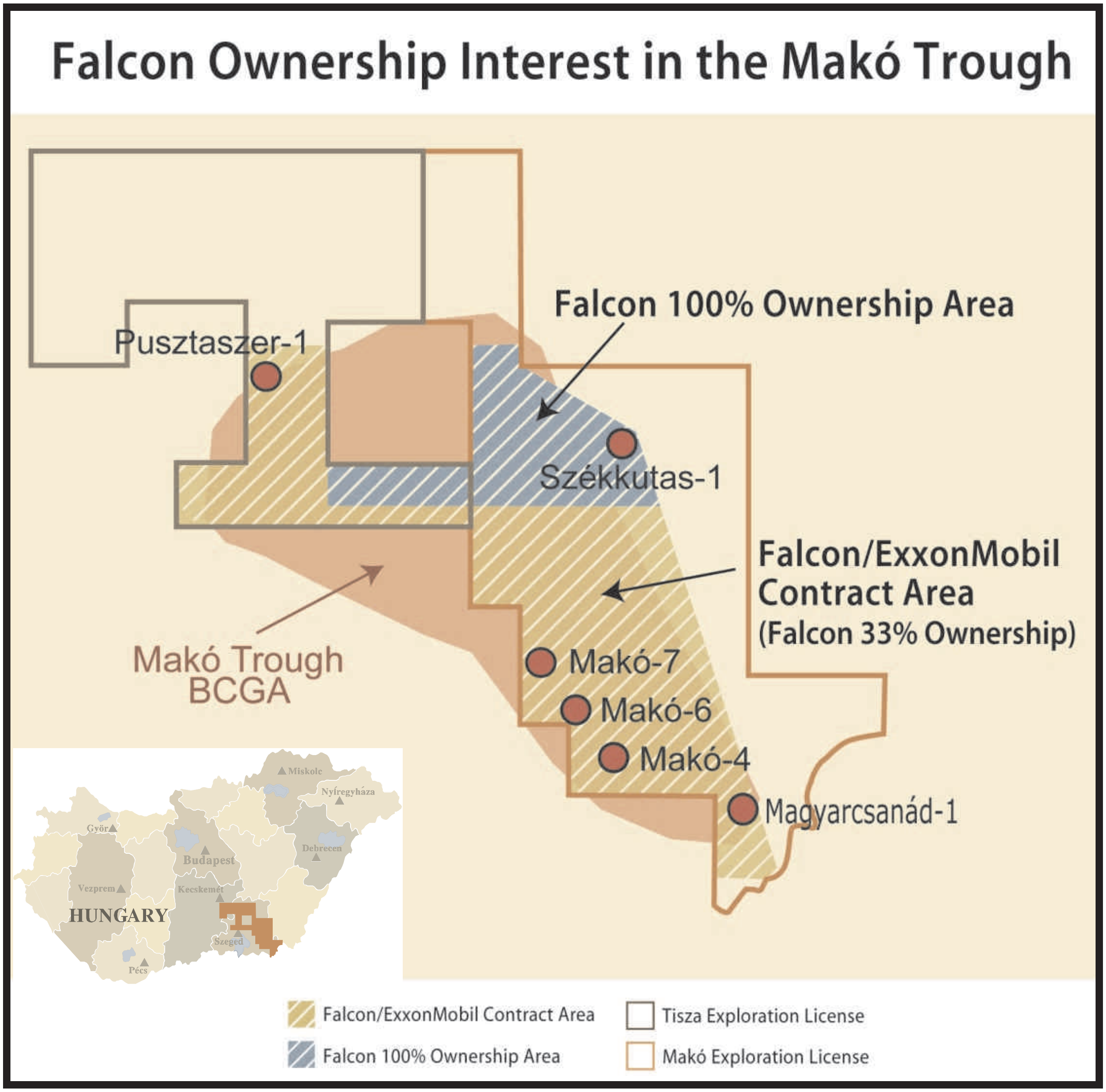
The PDA provides for an initial consideration of $25 million, which has been paid to the Company, and for ExxonMobil/MOL to spend $50 million to conduct an initial work program to test one or more of the Company's existing well bores or drill one or more new wells for such tests (the "**Initial Work Program**"). After the Initial Work Program is completed (about 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 does elect to proceed forward, ExxonMobil and MOL will pay the Company an additional $50 million and will be required to expend $100 million on the Appraisal Work Program. If ExxonMobil elects not to proceed beyond the Initial Work Program, it will relinquish and reassign to the Company all of ExxonMobil's interest in the Contract Area.

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 it elects to proceed forward, ExxonMobil and MOL will pay the Company an additional $75 million. If it elects not to proceed to the Development Program, it will reassign its interest to the Company, subject to the terms of the PDA. If ExxonMobil elects not to proceed to either the Appraisal Work Program or the Development Program, Falcon would resume operatorship of the Contract Area. MOL has the right to retain and pay for its 33.5% working interest share, including MOL's 50% share of the above-described payments to Falcon and work commitments, regardless of ExxonMobil's elections.

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 would each receive revenues and be responsible for its proportionate share of expenses within the Contract Area (that is, 33% Falcon, 33.5% ExxonMobil and 33.5% MOL), under the joint operating agreement ("**JOA**") which the parties entered into at the time of signing the PDA. The JOA will govern all operations during the Development Program, with ExxonMobil continuing as operator, but with all three parties participating in the formulation of the drilling and development plan and participating in the decision-making process. In addition to the Company's 33% undivided ownership in the ExxonMobil-operated Contract Area, the Company will remain sole owner and operator of 391,445 acres outside the Contract Area boundaries, as well as shallow rights covering 184,336 acres within the Contract Area, as follows:

- **Falcon Lands:** The Company retains 100% ownership in the remaining 25% (61,445 acres) of the Production License that is not part of the Contract Area.

- **Exploration Licenses:** The Company retains 100% ownership in 330,000 acres which are outside the boundaries of the Production License, under the original Makó exploration license (the "**Makó License**") and original Tisza exploration license (the "**Tisza License**" and together with the Makó License, the "**Exploration Licenses**"). 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 shallower depths are not part of the Production License.



Scotia Resource Evaluation Update

In May 2008, Falcon received a new, updated, independent report from RPS Scotia disclosing an updated resource estimate of the Makó Trough Pannonian Basin Gas Accumulation (the "**Makó Trough**") within the Production License (the "**RPS Scotia Report**"). The RPS Scotia Report has an effective date of March 31, 2008, and is an update to the Scotia Report. RPS Scotia is the parent company of the Scotia Group.

The RPS Scotia Report is compliant with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities".

The RPS Scotia Report provides a probabilistic distribution of the potentially recoverable portion of "Contingent Resources" as defined by the Canadian Oil and Gas Evaluation Handbook and does not represent an estimate of reserves.

Based on all available data, RPS Scotia has assigned the following probabilistic estimation of potentially recoverable contingent resources to the Falcon's interests in the Szolnok formation, the Lower Endrod, the Basal Conglomerate and the Synrift Sequence. The RPS Scotia Report measures the Makó Trough in trillions of cubic feet ("**Tcf**") and millions of barrel oil ("**mmbo**"):

	Probability Greater Than		
	P90 (90%)	P50 (50%)	P10 (10%)
Probabilistic estimation of potentially recoverable contingent resources (1) (2)	**25.8 Tcf** **42.6 mmbo**	**43.9 Tcf** **97.8 mmbo**	**68.0 Tcf** **202.7 mmbo**

Notes:

(1) The resource estimate has been conducted using the definitions specified by the Canadian Oil and Gas Evaluation Handbook. The Makó Trough resource falls under the "Discovered Resources" classification. The values refer to the probabilistically estimated recoverable fraction of "Contingent Resources" within that classification. Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations but are not currently economic. The economic nature of this resource has not yet been assessed due to the early stage of data gathering for the Makó Trough resource. The recoverable portion of this "Contingent Resource" is contingent upon the demonstration of productive capability of the various zones of interest through well testing and longer term production testing which has not occurred as of the effective date of the report.

(2) Estimates are as of March 31, 2008, the effective date of the RPS Scotia Report.

A copy of the RPS Scotia Report is available at www.falconoilandgas.com.

Repair to Makó 6

In June 2008, the Makó 6 well intervention and repair was completed. The 3 ½ inch tubing was removed down to 2250 meters. The well was then cemented down to about 2818 meters and a drillable plug was set above the cement in the 5 ½ inch casing.

Operational Highlights for 2008

Operational activity for 2008 has been limited to well site and well bore maintenance, and well intervention and repair of the Makó 6 well.

Evaluation Period

In 2008, Falcon substantially completed the work and studies undertaken in 2007 to evaluate the subsurface information, both geological and operational. This data has been shared with the ExxonMobil and MOL and is also of value to Falcon in the Falcon Lands portion of the Production License.

ExxonMobil will continue to perform its own evaluation of the subsurface and operational data as part of the Initial Work Program.

Operations

All future activity on wells within the Contract Area are subject to ExxonMobil's due diligence evaluation.

Romania

On June 1 2005, the Company entered into a farmout agreement (the "**Farmout Agreement**") with Pannonian International, Ltd. ("**Pannonian**"), a wholly owned subsidiary of Galaxy Energy Corporation ("**Galaxy**"), under which the Company agreed to pay 100% of the costs to drill two coalbed methane wells to earn a 75% undivided working interest in Pannonian's Jiu Valley Concession located in southwestern Romania, approximately 300 kilometers west of Bucharest. Through its wholly owned Romanian subsidiary, JVX, the Lupeni Sud-1 well was drilled. As of December 31, 2007, the Lupeni Sud-1 well was plugged and abandoned and 100% of the costs incurred were charged to operations. The Company has applied to have the Jiu Valley concession returned to the Romanian government. 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 at the end of each contract year.

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.

Acquisitions

Australia

On September 30, 2008, the Company closed its purchase of an undivided 50% working interest in an aggregate 7,000,000 acre prospect in the Northern Territory, Australia (the "**Beetaloo Basin**") from a related party, PetroHunter Energy Corporation ("**PetroHunter**").

The purchase price was $25,000,000, $5,000,000 of which was paid in cash as earnest money on August 25, 2008, and $20,000,000 of which paid on September 30, 2008 in equity securities convertible into shares on a one-for-one basis (the "**Special Warrants**") based on the closing price of the Company's shares on August 22, 2008. In the event that the closing share price on the date that a receipt is issued for the final prospectus to qualify the distribution of the common shares underlying the convertible equity securities (the "**Receipt Date**") is below the closing share price on August 22, 2008, the convertible equity securities have an adjustment mechanism which provides PetroHunter with price protection of up to 20%. In addition, the agreements provide for additional price protection, to a maximum of $3,500,000, if the share price on the Receipt Date is below 70% of the closing price on August 22, 2008.

PetroHunter serves as Operator of the Beetaloo Basin, although the joint operating agreement provides for a joint operating committee and for substantial direct involvement by the Company's managerial, technical and financial personnel. The Company and PetroHunter are subject to certain drilling commitments on the four exploration permits comprising the 7,000,000 acres. The commitments require the drilling of seven wells during 2009, five wells during 2010 and three wells during 2011. In addition, the parties must complete seismic evaluations on certain permits. The cost of all such work is borne equally by the Company and PetroHunter.

United States

On August 25, 2008, the Company entered into a binding agreement with PetroHunter to acquire a 25% working interest in five wells ("**Five Wells**") located within PetroHunter's 20,000-acre Buckskin Mesa project ("**Buckskin** Mesa Project") located in the Piceance Basin, Colorado, and to undertake a completion and testing program in respect of the Five Wells. The Company closed this acquisition on October 31, 2008.

Under the terms of the agreement, the Company agreed to pay 100% of the first $7,000,000 expended on completion and testing work in connection with the Five Wells. After completion and testing work has been performed, the Company has up to 60 days to review and analyze the results, at which time it will either retain its 25% interest in the Five Wells and acquire no greater interest, or exercise an option (the "**Buckskin Mesa Option**") to acquire an additional 25% working interest in the Five Wells (for a total of 50%) and a 50% working interest in the remainder of the 20,000-acre Buckskin Mesa Project. If exercised, the Buckskin Mesa Option requires the Company to pay an aggregate $18,000,000 in spending commitments on behalf of both the Company and PetroHunter, subject to adjustments, pursuant to a drilling and development program that will be mutually agreed to by the Company and PetroHunter, and $25,000,000, payable at the Company's option in cash, equity securities convertible into shares, or a combination thereof. If the Company elects to issue equity securities convertible into shares, they will be required to, among other things, obtain the prior approval of the TSX Venture Exchange ("**TSX-V**"). In addition, the Company will have an option to become the operator of the Buckskin Mesa Project. If it elects to become the operator, the Company must pay an additional $3,500,000 in cash, equity securities convertible into shares, or a combination thereof.

Additionally, one of the underlying agreements by which PetroHunter originally acquired its interest in the Buckskin Mesa Project requires the payment of $1,500,000 to an unrelated third party on January 9, 2009, and further requires that:

(i) at least four wells be commenced by July 31, 2009;

(ii) at least five additional wells be commenced by December 31, 2009; and

(iii) at least eleven additional wells be commenced by December 31, 2010.

In lieu of drilling the above referenced wells, the requirement may be satisfied by the payment of $500,000 per well not commenced. If the foregoing requirements are not satisfied, the Company and PetroHunter will be required to assign to the Third Party their entire leasehold interest in the Buckskin Mesa Project, other than the Five Wells and the 40 acres surrounding such wells.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended September 30, 2008 as Compared to the Three Months Ended September 30, 2007

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, 2008 and 2007, and the audited consolidated financial statements for the year ended December 31, 2007.

RESULTS OF OPERATIONS

Petroleum Revenue

The Company recorded revenue from petroleum and natural gas sales of $22,000 in 2008, as compared to $26,000 in 2007, of which nil and $10,000 respectively, were from the initial test production of the Magyarcsanad-1 well in Hungary. The remainder of the revenue was derived from the Company's

Canadian properties. 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 costs were $4,559,000 in 2008 as compared to $4,959,000 in 2007, a decrease of $400,000. The overall decrease to general and administrative costs was due to a decrease in 2008 due to the Company’s reduction and curtailment of its operations that commenced in the fourth quarter of 2007 as it changed its focus in Hungary from initial resource delineation phase to a resource evaluation phase. The significant components of changes in general and administrative expenses in 2008, as compared to 2007, were as follows:

- Accounting increased $94,000 to $217,000 in 2008 from $123,000 in 2007 primarily as a result of additional costs associated with the ExxonMobil joint venture in Hungary.

- Depreciation and amortization increased $46,000 to $119,000 in 2008 from $73,000 in 2007. The increase was primarily a result of the acquisition of office furniture and computer equipment in Budapest commencing with the relocation of the Budapest office in July 2007.

- Consulting decreased $158,000 to $489,000 in 2008 from $647,000 in 2007. The decrease resulted from the completion and termination of consulting agreements for gas marketing, financial and business advisory services, and technical services from 2007 to 2008.

- Investor relations decreased $407,000 to $155,000 in 2008 from $562,000 in 2007. The decrease was attributable to the cost containment measures implemented in the fourth quarter of 2007, including the reduction in the use of outside public relations firms.

- Legal costs decreased $121,000 to $280,000 in 2008 from $401,000 in 2007 for services from outside legal firms in Hungary and North America. The decrease was attributable to the cost containment measures implemented in the fourth quarter of 2007, and reduction in activities as the Company changed its focus in Hungary from an initial resource delineation phase to a resource evaluation phase.

- Office and administrative increased $95,000 to $554,000 in 2008 from $459,000 in 2007. The increase was primarily as a result of additional office rent and associated costs in Denver that were previously absorbed by PetroHunter in connection with the office sharing arrangement.

- Payroll and related costs decreased $272,000 to $747,000 in 2008 from $1,019,000 in 2007. The decrease was attributable to the cost containment measures implemented in the fourth quarter of 2007, and reduction in activities as the Company changed its focus in Hungary from an initial resource delineation phase to a resource evaluation phase.

- Stock based compensation, calculated utilizing the Black-Scholes option-pricing model, increased $495,000 to $1,370,000 in 2008 from $875,000 in 2007primarily as a result of option grants during 2008. During the second quarter of 2008, the Company granted officers, directors, employees and consultants of the Company options to purchase 13,610,000 common shares at an exercise prices ranging from $0.98 (CDN$1.00) to $1.10 (CDN$1.09). The options vest 20% at the date of grant, and 20% annually thereafter, and expire in May 2013.

- Travel and promotion decreased $200,000 to $561,000 in 2008 from $761,000 in 2007. The decrease is attributable to the cost containment measures implemented in the fourth quarter of

2007, and reduction in activities as the Company changed its focus in Hungary from an initial resource delineation phase to a resource evaluation phase.

Other (income) expense

- The Company realized interest income of $367,000 in 2008 as compared to $324,000 in 2007. The increase of $43,000 was attributable to the additional cash available for investment during the third quarter of 2008. The source of the additional cash was the net proceeds received from the ExxonMobil joint venture.

- Abandonment and impairment of petroleum and natural gas properties decreased $165,000 to nil in 2008 from $165,000 in 2007. During 2007, the Company impaired the carrying value of its Romanian properties. There were no impairments during 2008.

- The Company had a loss on foreign exchange of $1,832,000 in 2008 as compared to a gain of $258,000 in 2007. The loss and gain on foreign exchange were primarily attributable to foreign exchange rate movements on Canadian denominated cash accounts. The Canadian dollar strengthened relative to the US dollar throughout 2007, and remained relatively static until mid-2008; thereafter, the US dollar strengthened relative to the Canadian dollar. The Hungarian forint strengthened relative to the US dollar throughout 2007 and until mid-2008; thereafter, the US dollar strengthened relative to the Hungarian forint. Substantially all of the Company's financings have been in Canadian dollars; commensurate with the strengthening of the US dollar, at September 30, 2008, the Company has changed the composition of its cash balances to approximately two-thirds US dollars and one-third Canadian dollars; a significant portion of the Company's operations are in Hungarian forints.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Nine Months Ended September 30, 2008 as Compared to the Nine Months Ended September 30, 2007

RESULTS OF OPERATIONS

Petroleum Revenue

The Company recorded revenue from petroleum and natural gas sales of $66,000 in 2008 as compared to $162,000 in 2007, of which nil and $109,000, respectively, were from the initial test production of the Magyarcsanad-1 well in Hungary. The remainder of the revenue was derived from the Company's Canadian properties. 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 costs were $15,836,000 in 2008 as compared to $14,121,000 in 2007, an increase of $1,715,000. The overall increase to general and administrative costs was primarily the result of an increase to stock based compensation of $3,975,000, offset by a decrease resulting from the Company's reduction and curtailment of its operations that commenced in the fourth quarter of 2007 as it changed its focus in Hungary from initial resource delineation phase to a resource evaluation phase. The significant components of changes in general and administrative expenses in 2008 as compared to 2007 were as follows:

- Accounting increased $175,000 to $622,000 in 2008 from $447,000 in 2007 primarily as a result of additional costs associated with the ExxonMobil joint venture in Hungary.

- Depreciation and amortization increased $135,000 to $334,000 in 2008 from $199,000 in 2007 primarily as a result of the acquisition of office furniture and computer equipment in Budapest commencing with the relocation of the Budapest office in July 2007.

- Consulting decreased $615,000 to $1,258,000 in 2008 from $1,873,000 in 2007. The decrease resulted from the completion and termination of consulting agreements for gas marketing, financial and business advisory services, and technical services from 2007 to 2008.

- Investor relations decreased $395,000 to $496,000 in 2008 from $891,000 in 2007. The decrease was attributable to the cost containment measures implemented in the fourth quarter of 2007, including the reduction in the use of outside public relations firms.

- Legal costs decreased $629,000 to $988,000 in 2008 from $1,617,000 in 2007 for services from outside legal firms in Hungary and North America. The decrease was attributable to the cost containment measures implemented in the fourth quarter of 2007, and reduction in activities as the Company changed its focus in Hungary from an initial resource delineation phase to a resource evaluation phase.

- Payroll and related costs decreased $670,000 to $2,141,000 in 2008 from $2,811,000 in 2007. The decrease was attributable to the cost containment measures implemented in the fourth quarter of 2007, and reduction in activities as the Company changed its focus in Hungary from an initial resource delineation phase to a resource evaluation phase.

- Stock based compensation, calculated utilizing the Black-Scholes option-pricing model, increased $3,975,000 to $6,483,000 in 2008 from $2,508,000 in 2007 increased primarily as a result of option grants during 2008. During the second quarter of 2008, the Company granted officers, directors, employees and consultants of the Company options to purchase 13,610,000 common shares at an exercise prices ranging from $0.98 (CDN$1.00) to $1.10 (CDN$1.09). The options vest 20% at the date of grant, and 20% annually thereafter, and expire in May 2013.

- Travel and promotion decreased $517,000 to $1,565,000 in 2008 from $2,082,000 in 2007. The decrease was attributable to the cost containment measures implemented in the fourth quarter of 2007, and reduction in activities as the Company changed its focus in Hungary from an initial resource delineation phase to a resource evaluation phase.

Other (Income) Expense

- The Company realized interest income of $1,219,000 in 2008 as compared to $2,180,000 in 2007. The decrease of $961,000 was attributable to the reduction in cash available for investment during 2008. In 2007, the Company had available for investment the proceeds from its 2006 common share offerings, a portion of which were utilized in operations during 2007.

- Abandonment and impairment of petroleum and natural gas properties decreased $783,000 to nil in 2008 from $783,000 in 2007. During 2007, the Company impaired the carrying value of its Romanian properties. There were no impairments during 2008.

- The Company had a loss on foreign exchange of $3,112,000 in 2008 as compared a gain of $5,468,000 in 2007. The gain and loss on foreign exchange were primarily attributable to foreign exchange rate movements on Canadian denominated cash accounts. The Canadian dollar strengthened relative to the US dollar throughout 2007, and remained relatively static until mid-2008; thereafter, the US dollar strengthened relative to the Canadian dollar. The Hungarian forint strengthened relative to the US dollar throughout 2007 and until mid-2008; thereafter, the US dollar strengthened relative to the Hungarian forint. Substantially all of the Company's financings have been in Canadian dollars; commensurate with the strengthening of the US dollar, at September 30, 2008, the Company has changed the composition of its cash balances to approximately two-thirds US dollars and one-third Canadian dollars; 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:	**December 31, 2007**	**March 31, 2008**	**June 30, 2008**	**September 30, 2008**
Total assets	$308,864,891	$293,967,511	$297,373,735	306,870,814
Petroleum and natural gas properties	229,805,480	231,956,676	211,927,213	240,329,003
Working capital	56,746,001	51,593,669	68,343,352	55,312,512
Total shareholders' equity	288,076,167	285,082,821	281,874,148	297,268,936
For the three months ended:	**December 31, 2007**	**March 31, 2008**	**June 30, 2008**	**September 30, 2008**
Revenue	44,982	18,420	25,165	22,671
Net income (loss)	(5,650,292)	(4,375,025)	(7,486,272)	(6,104,178)
Net income (loss) per share-basic and diluted	(0.012)	(0.008)	(0.013)	(0.011)

As of:	**December 31, 2006**	**March 31, 2007**	**June 30, 2007**	**September 30, 2007**
Total assets	$286,383,475	$290,190,826	$288,263,412	$274,788,840
Petroleum and natural gas properties	123,777,478	170,905,424	216,433,277	234,934,259
Working capital	134,562,552	85,233,651	40,586,242	18,293,328
Total shareholders' equity	260,006,697	258,580,626	259,789,896	256,068,735
For the three months ended:	**December 31, 2006**	**March 31, 2007**	**June 30, 2007**	**September 30, 2007**
Revenue	5,288	25,043	111,842	25,561
Net income (loss)	(10,348,426)	(3,101,064)	500,233	(4,595,798)
Net income (loss) per share-basic and diluted	(0.023)	(0.007)	0.001	(0.010)

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, but 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 an additional financing.

LIQUIDITY AND CAPITAL RESOURCES

Prior Offerings

In December 2007, the Company completed the sale of an aggregate of 100,000,000 common shares at a price of $0.39 (CDN$0.40) per common share pursuant to a short form prospectus (the "**December Offering**"). Gross proceeds from the December Offering were $39,304,314 (CDN$40,000,000). The underwriters received a cash commission of 6% of the gross proceeds $2,358,240 (CDN$2,400,000) and warrants (collectively, the "**December Underwriters' Warrants**") to purchase 6% of the number of common shares sold under the December Offering, at an exercise price of $0.39 (CDN$0.40) per share, for a period of 24 months from the date of the closing of the December Offering.

As was indicated in the prospectus filed in connection with the December Offering dated December 10, 2007, the proceeds of the December Offering were to be used by the Company for the exploration and development of the Company's projects in Hungary, including the completion of three existing well bores, and for general corporate and working capital purposes, subject to the ability of the Company to reallocate the proceeds of the December Offering for sound business reasons. In light of the ExxonMobil transaction, the board of directors of the Company has assessed the overall business strategy of the Company and determined that a reallocation of the remaining proceeds of the December Offering be made to the Beetaloo Basin and Buckskin Mesa Project acquisitions.

Working Capital

Cash and cash equivalents at September 30, 2008 were $45,171,000, a decrease of $10,821,000 from $55,992,000 at December 31, 2007. Working capital at September 30, 2008 decreased to $55,312,000 from $56,746,000 at December 31, 2007.

The decrease to cash and cash equivalents of $10,821,000 was attributable to cash used in operating activities and investing activities, and the effect of exchange rates on cash, of $6,018,000, $2,360,000 and $3,118,000, respectively, offset by cash provided by financing activities of $675,000. In April 2008, the Company received $25,000,000 from ExxonMobil as the initial consideration under the PDA. At September 30, 2008, costs associated with the transaction were $3,550,000, resulting in net cash received of $21,450,000. Capital expenditures, including payment of prior year's accounts payable incurred for petroleum and natural gas properties, and including costs associated with the acquisition of the working interests in Beetaloo Basin and Buckskin Mesa Project, aggregated $24,208,000. Cash provided by financing activities of $675,000 resulted solely from the exercise of warrants to acquire shares of the Company's common stock. Included in cash and cash equivalents at December 31, 2007 was $320,000 held as collateral for letters of credit issued by the Company, which were released in 2008.

Amounts Receivable and Prepaids

Amounts receivable at September 30, 2008 includes $5,000,000 due from ExxonMobil for well intervention and repair on the Makó6 well, $711,000 and $193,000 receivable from the Hungarian and Canadian governments as refunds of VAT and GST, respectively; prepaids include $693,000 for advance payments to Hungarian suppliers.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2008 were $4,208,000, which includes $2,137,000 for capital expenditures related to the Company's Hungarian operations, as compared to accounts payable and accrued expenses of $14,649,000 at December 31, 2007, which includes

$12,517,000 for capital expenditures related to the Company's Hungarian operations. The reduction is due to the decrease in operations in Hungary commencing in the fourth quarter of 2007, as the Company changed its focus from initial resource delineation phase to a resource evaluation phase.

Capital Expenditures

For the nine months ended September 30, 2008, the Company incurred $32,005,000 for additions to its petroleum and natural gas properties, of which $25,279,000 and $239,000 were for the acquisition of the Beetaloo Basin and the Buckskin Mesa Project, respectively; and made cash payments on all petroleum and natural gas properties of $23,385,000 of which $12,517,000 represents amounts incurred and accrued at December 31, 2007. Included in capital expenditures for Beetaloo Basin are Special Warrants valued at $20,000,000. During the comparable 2007 period, the Company incurred $111,725,000, substantially all of which was for its properties in Hungary.

The significant costs for 2008 in Hungary were for repair work on the Makó 6 well in excess of amounts reimbursed by ExxonMobil, specialized processing and evaluation of the seismic and well data previously acquired in 2007 and well maintenance for the six existing well bores. The primary capital expenditures for 2007 were the location construction of the Foldeak well, the drilling of the Makó 4 well and the Magyarcsanad - 1 well, complete logging of the Makó 7 well, completion of Makó 6 well stimulations (fracturing) in the Synrift and lower Basil Conglomerate, completion of initial flow tests of the Szekkutas - 1 well, and completion of the Szekkutas well seismic survey.

As of September 30, 2008, the Company's total 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 $236,104,000**,** including an asset retirement obligation of approximately $4,923,000, for the six wells drilled.

At December 31, 2007, a portion of the Company's inventory aggregating $14,375,000 was reclassified from petroleum and natural gas properties to inventory available for sale, and carried at the lower of cost or net realizable value as a current asset of $10,782,000. At September 30, 2008, the estimated net realizable value of the inventory available for sale was $6,966,000; the reduction of $3,816,000 was attributable to inventory sold during the second and third quarters of 2008.

Furniture and equipment at September 30, 2008 was $3,072,000 as compared to $2,381,000 at December 31, 2007. Included in the increase of $691,000 is $246,000 of furniture and office equipment in the Denver office acquired at the termination of the office sharing agreement with PetroHunter (see "**Transactions with Related Parties**").

The Company's activity in Hungary for 2008 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 is evaluating the existing wellbores and determining its recommendations for the Initial Work Program. The Company's activity in the United States for 2008 will be focused on the testing and completion of the Five Wells. The Company's activity in Australia for 2008 will be focused on administrative matters prior to exploration activities that the Company believes should commence in 2009.

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. 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 ExxonMobil's evaluation of the Contract Area.

The Company's future capital requirements will also be dependent upon the evaluation of the Beetaloo Basin and the Buckskin Mesa 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 Related Parties

The Company has entered into certain agreements and transactions with PetroHunter, a related entity, whose largest single shareholder is also the President and CEO of the Company. As discussed above, the Company has entered into agreements with PetroHunter to acquire working interests in the Beetaloo Basin located in the Northern Territory, Australia, and the Buckskin Mesa Project, located in the Piceance Basin, Colorado.

In June 2006, the Company entered into an Office Sharing Agreement with PetroHunter for office space in Denver, Colorado, of which the Company is the lessee. Under the terms of the agreement, PetroHunter and the Company shared, on an equivalent employee basis, all costs related to the office space, including rent, office operating costs, furniture and equipment and any other expenses related to the operations of the corporate offices. Certain employees of PetroHunter had provided services to the Company, and in 2007 PetroHunter invoiced the Company $176,000 (2008- nil) for these services at cost. The largest single shareholder of PetroHunter is also the President and CEO of the Company. The above described office sharing arrangement was mutually terminated effective February 1, 2008. As at September 30, 2008 and December 31, 2007, PetroHunter owed the Company nil and $678,000, respectively, for its share of net costs incurred under this arrangement.

During 2008, the Company incurred $135,000 (2007-$135,000) to a current director of the Company, Dr. György Szabó, for advisory and consulting services rendered to TXM; and $175,000 (2007-nil) 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, was and 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, since Mr. Brody's appointment as Corporate Secretary and General Counsel of Falcon, Mr. Brody has not received any remuneration from Patton Boggs LLP.

On October 1, 2008, the Company agreed to lend PetroHunter $5,000,000. Under the terms of the Loan Agreement, 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 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 the earlier of: (i) 45 days after the Receipt Date (ii) 120 days from the date of the loan or (iii) an event of default. Collateral underlying the loan includes: (i) a first mortgage in the Five Wells and (ii) certain pledged common shares as follows: of the $20,000,000 of the Company's securities to be issued to PetroHunter, (a) $7,500,000 is to be pledged and held in a brokerage account designated by the Company, (b) $6,000,000 is to be available for PetroHunter to pledge as collateral for a loan with a third party and, of the proceeds received by PetroHunter, 50% must be paid to the Company to extinguish the then outstanding loan balance, and (c) all remaining common shares may be sold by PetroHunter and, of the proceeds received by PetroHunter, 50% must be paid to the Company to extinguish the then outstanding loan balance. To avoid an event of default, PetroHunter must comply with certain other covenants as stipulated in the Loan Agreement.

DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at September 30, 2008 and November 26, 2008:

Class Of Securities	September 30, 2008	November 26, 2008
Common Shares	566,910,413	566,910,413
Special Warrants[(1)]	28,888,888	28,888,888
Stock Options	47,490,000	47,490,000
December Underwriters' Warrants[(2)]	4,288,750	4,288,750

Notes:

(1) As partial consideration for the Beetaloo Basin acquisition, the Company has issued $20,000,000 of equity securities convertible into shares of the Company's common stock on a one-for-one basis based on the closing price of the Company's shares on August 22, 2008.

(2) December Underwriters' Warrants to purchase 6,000,000 shares of the Company's common stock were issued in connection with the December Offering.

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, 2007.

CHANGES IN ACCOUNTING POLICIES

(a) Capital Disclosures and Financial Instruments-Disclosures and Presentation

The Company adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1535, Capital Disclosures ("Section 1535"), Handbook Section 3862, Financial Instruments-Disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments-Presentation ("Section 3863").

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. Section 1535 specifies the disclosures of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments-Disclosure and Presentation, revising and enhancing its disclosure requirements and carrying forward unchanged its presentation requirements for financial instruments. Sections 3862 and 3863 place increased emphasis n disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

(b) Inventories

Handbook Section 3031, "Inventories" ("Section 3031"), which replaces Handbook Section 3030 "Inventories", requires inventory to be carried at the lower of cost and net realizable value using, in certain cases, the specific identification method or either of the first-in, first-out or average cost methods.

Write downs to net realizable value may be reversed, to the extent of the original write down, if there is clear evidence of an increase in value due to a change in circumstances. Except for the new guidance on reversal of write downs, the Company's current practice for valuing inventories is substantially in accordance with the new standard, and therefore the adoption of Section 3031 did not result in a material impact on the Company's consolidated financial position and results of operations.

No other new accounting policies were adopted by the Company in the six months ended June 30, 2008 and the Company is not expected to adopt any new accounting policies in the balance of 2008.

Business Risks and Uncertainties

The business risks and uncertainties affecting the Company have not changed from those described in the Management's Discussion and Analysis for the year ended December 31, 2007.

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.