Falcon Oil & Gas Ltd.

Form 51-102F1
Management's Discussion & Analysis
For the Three and Six Months Ended 30 June 2013

(Presented in U.S. Dollars)

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INTRODUCTION

The following management's discussion and analysis (the "**MD&A**") was prepared as at 28 August 2013 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 (as hereinafter defined) for the six months ended 30 June 2013. This MD&A should be read in conjunction with the unaudited Interim Financial statements for the three and six months ended 30 June 2013 and 2012 and the audited consolidated financial statements and MD&A for the year ended 31 December 2012.

The information provided herein in respect of Falcon includes information in respect of its wholly-owned subsidiaries: Makó Energy Corporation ("**Makó**"), a Delaware company; TXM Oil and Gas Exploration Kft. ("**TXM**"), a Hungarian limited liability company; TXM Marketing Trading & Service Kft. ("**TXM Marketing**"), a Hungarian limited liability company; Falcon Oil & Gas Ireland Ltd. ("**Falcon Ireland**"), an Irish limited liability company; Falcon Oil & Gas USA Inc.("**Falcon USA**"), a Colorado company; JVX Energy S.R.L. ("**JVX**"), a Romanian company and its 96.9% majority owned subsidiary, Falcon Oil & Gas Australia Limited ("**Falcon Australia**"), an Australian company (collectively, the "**Company**" or the "**Group**").

Additional information related to the Company, including the Company's Annual Information Form ("**AIF**") for the year ended 31 December 2012 dated 30 April 2013 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; Falcon's acquisition strategy; the criteria to be considered in connection therewith and the benefits to be derived therefrom; Falcon's goal to sustain or grow production and reserves through prudent management and acquisitions; the emergence of accretive growth opportunities; Falcon'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 Falcon's petroleum and natural gas properties; realisation of the anticipated benefits of acquisitions and dispositions; Falcon's ability to establish a broad institutional shareholder base in London and Dublin and increase the volume of trading in common shares; expectations regarding the ability of Falcon to access additional sources of funding not currently available; and Falcon's ability to leverage its experience in the unconventional oil and gas industry to acquire interests in licenses.

Some of the risks and other factors, which could cause results to differ materially from those expressed in the forward-looking statements include, but are not limited to: general economic conditions in Canada, the Republic of Hungary, the Commonwealth of Australia, the Republic of 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 Falcon's AIF. The forward-looking statements contained in this document are expressly qualified by this cautionary statement. Falcon disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulation.

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

The following table outlines certain forward looking statements contained in this MD&A and provides material assumptions used to develop such forward looking statements and material risk factors that could cause actual results to differ materially from the forward looking statements.

Page No.	Forward looking statements	Assumptions	Risk factors
7	*Overview of the business and overall performance - About the group* "Falcon's strategy is to leverage the Group's expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the Board of Directors of Falcon (the "**Board**") believes support the exploitation of unconventional oil and gas."	The countries in which the group operates support the exploitation of unconventional oil and gas.	The countries in which the group operates may change their regulatory environment which might adversely impact the exploitation of unconventional oil and gas resources.
9	*Beetaloo basin, Northern Territory, Australia – overview – current activity* "Falcon retains a 100% working interest in the four Beetaloo exploration permits which puts Falcon in a stronger position going forward."	The Group views the permits as commercially attractive to potential farm-out partners.	Potential farm-out partners might not view the Beetaloo permits as commercially attractive for exploitation of oil and gas.
9	*Beetaloo basin, Northern Territory, Australia – overview – current activity* "Falcon Australia is currently finalising a 2D seismic acquisition programme for exploration permit EP-99 in order to meet permit requirements. This 2D seismic data is expected to provide the necessary information to plan a potential well programme in the coming years."	This 2D seismic data is expected to provide the necessary information to plan a potential well programme in the coming years.	The 2D seismic data might not provide adequate data to plan a potential well programme in the coming years.
9	*Beetaloo basin, Northern Territory, Australia – overview – current activity* "Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources. Falcon Australia has received expressions of interest from a number of third parties regarding a possible farm-out arrangement."	Falcon Australia will farm-out its interest in the Beetaloo basin.	A farm –out deal cannot be successfully negotiated.
10	*Karoo basin, South Africa - overview* "These regulations have not yet been published. Consequently, the Board expects that the exploration right over the acreage will be awarded in 2014." (In the MD&A for the three months ended 31 March 2013, management had expected these regulations to be published in Quarter 2 2013 and the awarding of the Exploration Right in the second half of 2013. – This has not occurred)	The awarding of the exploration right over the acreage will occur in 2014.	The introduction of legislation and regulation in South Africa may be delayed and consequently the awarding of the exploration right may be delayed.
11	*Makó Trough, Hungary - The Algyö Play* "The Board estimates that the gross costs of the three-well drilling programme will be approximately $21 million."	This estimate is based on the Group's experience of drilling Hungary.	Costs may be substantially higher.
11	*Makó Trough, Hungary - The Deep Makó Trough* "The Company intends to re-enter the untested Makó-7 and Makó-4 wells and will seek a technically and financially capable partner to test and produce the shale gas and tight gas formations in the Deep Makó Trough."	These wells have encountered thick sequences of hydrocarbon bearing rocks. The group has thus assumed that it will seek a technically and financially capable partner to test and produce the shale gas and tight gas formations in the Deep Makó Trough.	The Group may not be able to farm-out this process.

12	*Makó Trough - The Algyö Play – current activity* "The location of the second of the three well programme will be decided after a full evaluation of the Kútvölgy-1 well results. Operations on the second well are expected to commence in Quarter 4 this year." (In the MD&A for the three months ended 31 March 2013, NIS had informed the Company that it expected the first well to spud in Quarter 2 2013 and the three-well drilling programme to be completed before the end of 2013. – The drilling timeframe has now been extended into 2014)	The Group has assumed the three well drilling programme will proceed based on the current timeframe.	NIS may encounter technical or operational difficulties which would extend the timeframe of the three-well drilling programme.
12	*Alberta, Canada* "Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred."	The Group does not intent to do any further exploration or development of these wells.	We may be called upon to increase our cash commitment to these wells, given our interest.
14 & 17	*Managements' discussion and analysis of the results for the period. – General and administrative expenses* "Investor relations: One of the main focuses of the Group's new management, who commenced in mid-2012, was and is to actively engage with its shareholders and investors. This has resulted in increased expense in this area in 2013. It is expected that expenditure in this area will be maintained going forward."	The Group has assumed that increased levels of expenditure on investor relations will be maintained going forward.	N/a
14 & 17	*Managements' discussion and analysis of the results for the period. – General and administrative expenses* "Travel and promotion decreased in the current period over the prior year due to the closure of the Denver office in Quarter 3 of 2012 and increased focus by new management on cost containment. Certain levels of travel and promotion costs are and will be incurred due to the international geography of the Group's assets and investor base."	The Group has assumed that certain levels of expenditure on travel costs given the international geography of the Group's assets and investor base	N/a
21	*Liquidity & Capital resources – Going concern* "Having given due consideration to the cash requirements of the Group and having raised capital in the gross amount of $25.7 million, the Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future."	The Group is a going concern.	Due to unforeseen expenditures, the group would not have available cash to meet its liabilities as they fall due in the foreseeable future.
21	*Liquidity & Capital resources – capital expenditures - Australia - Beetaloo Basin, Northern Territory, Australia* "Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources."	The Group has assumed that Falcon Australia intends to meet this commitment either through a future farm-out arrangement or through its own resources.	A farm –out deal cannot be successfully negotiated.
21	Liquidity & Capital resources – capital expenditures - *Hungary - Makó Trough, Hungary* "The Group is not planning any independent technical operations in Hungary other than joint operations with NIS, and as such no material capital expenditures are expected."	The Group is not planning any independent technical operations in Hungary other than joint operations with NIS.	Unforeseen circumstances might require the Group to conduct independent technical operations in Hungary.

Dollar amounts

All dollar amounts in this document are in United States dollars, except as otherwise indicated. CDN$ where referenced represents Canadian Dollars; £ where referenced represents British Pounds sterling and HUF where referenced represents Hungarian Forints.

The financial information provided herein has been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

RPS Energy Competent Persons Report ("CPR")

RPS Energy's resource report titled "Evaluation of the Hydrocarbon Resource Potential Pertaining to Certain Acreage Interests in the Beetaloo Basin, Onshore Australia and Makó Trough, Onshore Hungary" (the "**RPS 2013 Report**") dated 1 January 2013 is available on www.sedar.com.

The RPS 2013 Report on the hydrocarbon resource potential of the Beetaloo Basin and the Makó Trough describes a possible distribution of the un-risked prospective (recoverable) portion of un-risked undiscovered original oil and gas in-place resources, as defined by the Canadian Oil and Gas Evaluation Handbook ("**COGEH**") and does not represent an estimate of reserves. The RPS 2013 Report has been prepared in accordance with the Canadian standards set out in the COGEH and is compliant with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities". Under Section 5.2 of COGEH: Undiscovered Petroleum Initially-In-Place (equivalent to undiscovered resources) is that quantity of petroleum that is estimated, on a given date, to be contained in accumulations yet to be discovered. Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. There is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, it may not be economically viable or technically feasible to produce any of the resources.

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OVERVIEW OF BUSINESS AND OVERALL PERFORMANCE

About the Group

Falcon is an international oil and gas company engaged in the acquisition, exploration and development of unconventional and conventional oil and gas assets. The Company's interests are located in internationally diversified countries that are characterised by a high regional demand for energy and are close to existing infrastructure allowing rapid delivery of oil and gas to market.

Falcon's strategy is to leverage the Group's expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the Board of Directors of Falcon (the "**Board**") believes support the exploitation of unconventional oil and gas. Falcon seeks to add value to its assets by entering into farm-out arrangements with major oil and gas companies that will fully or partially carry Falcon through seismic and drilling work programmes. The Group's principal interests are located in two major underexplored basins in Australia and South Africa; and in Hungary, covering approximately 14.75 million gross acres in total.

Falcon is incorporated in British Columbia, Canada and headquartered in Dublin, Ireland with a technical team based in Budapest, Hungary. Falcon's Common Shares are traded on the TSX Venture Exchange (symbol: FO.V); AIM, a market operated by the London Stock Exchange (symbol: FOG) and ESM, a market regulated by the Irish Stock Exchange (symbol: FAC).

Summary of Operations

The following table summarises the principal oil and gas interests of the Company in Australia, South Africa and Hungary:

Assets (Country)	**Interest (%)**	**Operator**	**Status**	**Area (km^2)**	**Expiry**
Exploration Permit EP-76 (Beetaloo Basin, Northern Territory, Australia)	96.9[(i)]	Falcon Australia	Exploration	4,976.3	31 December 2013
Exploration Permit EP-98 (Beetaloo Basin, Northern Territory, Australia)	96.9[(i)]	Falcon Australia	Exploration	11,412.1	31 December 2013
Exploration Permit EP-99 (Beetaloo Basin, Northern Territory, Australia)	96.9[(i)]	Falcon Australia	Exploration	2,587.2	31 December 2014
Exploration Permit EP-117 (Beetaloo Basin, Northern Territory, Australia)	96.9[(i)]	Falcon Australia	Exploration	9,218.3	31 December 2013
Technical Cooperation Permit, (Karoo Basin, South Africa)	100	Falcon	TCP	30,327.9	In Force[(ii)]
Makó Production Licence (Makó Trough, Hungary)	100	TXM	Production	994.6	21 May 2042

Notes:
(i) Falcon owns 96.9% of Falcon Australia, which holds a 100% interest in the Beetaloo Exploration Permits. The remaining 3.1% interest is held by others. Falcon has offered to purchase shares from certain of the remaining shareholders in Falcon Australia. This offer was valid until 22 August 2013. This transaction is in the process of closing.

(ii) In compliance with the terms of the Technical cooperation permit ("**TCP**"), the Company submitted its application for an exploration permit in August 2010 prior to the moratorium being introduced in April 2011. Local counsel has confirmed that despite the TCP expiry date of October 2010 having passed, the Company's interests remain valid and enforceable.

Beetaloo Basin, Northern Territory, Australia

Overview

Falcon Australia, Falcon's 96.9% owned subsidiary, is the registered holder of four exploration permits, comprising approximately 7 million acres (approximately 28,000 km^2) in the Beetaloo Basin, Northern Territory, Australia. The Beetaloo Basin is located 600 kilometres south of Darwin close to infrastructure including a highway, two pipelines and a railway, offering transport options to the Australian market and beyond via the existing and proposed LNG capacity in Darwin.

The Beetaloo Basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Basin covers approximately 8.7 million acres (approximately 35,260 km^2) and is a relatively underexplored onshore exploration basin with, as far as the Company is aware, 11 exploration wells drilled in the Beetaloo Basin to date. The area is remote and sparsely populated and the Board believes that it is well suited for oil and gas projects. Australia has a developed resources industry with a stable political, legal and regulatory system.

RPS Energy, in its CPR dated 1 January 2013 (filed on SEDAR in January 2013 and available on the Falcon website), estimates gross unrisked recoverable prospective resource (play level) potential of 162 trillion cubic feet ("**Tcf**") of gas and 21,345 million barrels of oil ("**Mmbo**") (P50) for Falcon Australia's Beetaloo Exploration Permits.

Exploration Permits

A summary of Falcon Australia's Beetaloo Exploration Permits is contained in the table above. The acreage interests covered by the Beetaloo Exploration Permits cover the majority of the Beetaloo Basin and are held 100% in the name of Falcon Australia. Falcon Australia is the operator of the exploration permits.

The work commitments for the Beetaloo Exploration Permits held by Falcon Australia have been met for previous years, with the exception of exploration permit EP-99, on which an original extension was granted to 31 December 2013.

In June 2013, the exploration permit for EP-99 was extended to 31 December 2014. The permits for EP-76, EP-98 and EP-117 are due to expire on 31 December 2013. Application to extend the permits will be made prior to 30 September 2013.

In accordance with local law and regulations, all Falcon Australia's acreage interests are subject to royalties on production values of up to approximately 12% to government and native title holders/claimants and 12% to other parties. In addition, Falcon Australia is subject to Commonwealth Government corporation tax of 30%, and to the Commonwealth Government's Petroleum Resource Rent Tax ("**PRRT**") levied at the rate of 40% on the taxable profits derived from the petroleum projects. The PRRT is calculated on the individual projects and royalties are deductible for PRRT purposes. The PRRT tax system is separate from the company income tax system and is based on cash flow. Both royalties and PRRT are deductible for corporate income tax purposes.

Discoveries and Prospectivity

The Board believes that the Beetaloo Basin is relatively under-explored and has shale oil, shale gas and BCGA ("**basin centered gas accumulations**") potential. As far as the Company is aware, 11 wells have been drilled in the Beetaloo Basin to date. This work was undertaken by a Rio Tinto Group subsidiary company exploring for conventional hydrocarbons and while not leading to a conventional development, the data from the cores demonstrated the presence of tight oil and gas and several horizons were shown to be prospective for unconventional oil and gas.

There are no existing fields but there are numerous mudlog and core oil and gas shows throughout the Beetaloo Basin in prospective formations. The Shenandoah-1 well was a vertical hole well drilled by Sweetpea in 2007. The well was deepened by Falcon Australia in 2009 to finish at 2,714 metres. It was re-entered in Quarter 3 2011 and five short tests were conducted including several fracking operations. Gas was recovered from three zones with some liquids.

Current activity
In April 2011, Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty Ltd ("**Hess**") whereby Hess agreed to collect seismic data over an area made up of three of the four Beetaloo Exploration Permits, excluding exploration permit EP-99 and an area within exploration permit EP-98 (the Shenandoah-1 well and approximately 100,000 acres (approximately 405 km^2) of land around the well-bore), referred to as the "**Hess Area of Interest**". Falcon Australia was the operator of exploration permit EP-99 and Hess was the operator of exploration permits EP-76, EP-98 and EP-117. Falcon Australia also retained operatorship in the Shenandoah-1 well and approximately 100,000 acres (approximately 405 km^2) of land around the Shenandoah-1 well-bore within exploration permit EP-98.

Since signing the agreement with Hess, Hess has acquired 3,490 kilometres of 2D seismic data at an estimated cost in excess of $55 million. The 2D seismic data is currently being processed and interpreted.

Hess had the option, valid until 30 June 2013, to acquire a 62.5% working interest in the Hess Area of Interest by committing to drill and evaluate five exploration wells at Hess' sole cost, one of which must have been a horizontal well. All costs to plug and abandon the five exploration wells would have been borne solely by Hess. The Board estimated that the gross costs associated with the five-well programme would have been approximately $75 million. Hess had also agreed, subject to proceeding to the development phase, to carry Falcon Australia, on a first development well, up to a gross cost of $10 million, which the Board believed would have been the total gross cost of this well. Costs to drill wells after the five exploration wells and the first development well (and after the initial $10 million) would have been borne 62.5% by Hess and 37.5% by Falcon Australia.

However, Hess did not elect to commit to drilling the five wells required to earn their interest in the Beetaloo permits by the agreed deadline. Therefore, in accordance with the Participation Agreement (as amended), which granted Hess the first extension; failure to elect on time meant that Hess forfeited their right to earn 62.5% in three of the Beetaloo permits. Hess had requested a one month extension to allow them sufficient time to conclude a farm-out deal with a third party, which they described as one of the largest oil and gas companies in the world. However, the late request by Hess to defer the election date again was unanimously rejected by Falcon's Board for reasons outlined below:

- Falcon retains a 100% working interest in the four Beetaloo exploration permits which puts Falcon in a stronger position going forward.
- Hess has transferred a perpetual, royalty-free and irrevocable licence to Falcon over the 3,490 km of seismic acquired by them.
- The initial interpretation of 3,490 km of new seismic data, acquired at no cost to Falcon, is extremely encouraging.
- Identification of a shale oil play in the northern part of the permits in addition to the shale gas and conventional plays throughout the acreage.
- Unsolicited interest from major oil and gas companies.
- Falcon had already granted Hess an extension from August 2012 to June 2013.

Under the minimum work commitments for exploration permit EP-99, Falcon Australia must spend a minimum of $1.5 million by 31 December 2014 in collecting 2D seismic data on the underlying acreage within exploration permit EP-99. Falcon Australia is currently finalising a 2D seismic acquisition programme for exploration permit EP-99 in order to meet permit requirements. This 2D seismic data is expected to provide the necessary information to plan a potential well programme in the coming years. Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources. Falcon Australia has received expressions of interest from a number of third parties regarding a possible farm-out arrangement.

Karoo Basin, South Africa

Overview
The Company holds a Technical Co-operation permit ("**TCP**") covering an area of approximately 7.5 million acres (approximately 30,327 km^2), in the southwest Karoo Basin, South Africa, which grants the Company exclusive rights to apply for an exploration right over the underlying acreage. In August 2010, the Company submitted an application to the Petroleum Agency of South Africa for an exploration right over the acreage covered by the TCP and, as part of the application process, the Company submitted an environmental management plan in January 2011.

On 1 February 2011, the Minister of Mineral Resources (the "**Minister**") published a notice in the Government Gazette declaring a moratorium on the processing of all new applications relating to the exploration and production of shale gas in the Karoo Basin. This moratorium did not extend to existing applications, such as Falcon's, that were submitted prior to 1 February 2011. In April 2011, the Minister announced a further moratorium, which was not officially declared in terms of a notice in the Government Gazette, prohibiting all new applications and suspending the processing of all pending application whilst the South African Department of Mineral Resources conducted an environmental feasibility study on the effects of hydraulic stimulation and developed a system to regulate onshore exploration activities (the "**Undeclared Moratorium**"). The undeclared moratorium has no legal effect since it is a requirement of the South African petroleum legislation that all such moratoriums be published in the Government Gazette. In September 2012, the South African Government announced a decision to lift the undeclared moratorium on shale gas exploration. The Minister has indicated that although the Undeclared Moratorium has been "lifted", pending exploration right applications will not be processed and awarded until the regulations regarding hydraulic fracturing are published. These regulations have not yet been published. Consequently, the Board expects that the exploration right over the acreage will be awarded in 2014.

The South African Government is entitled to a royalty on the sale of mineral resources of up to 7% of gross sales (in the case of unrefined resources) and 5% of gross sales (in the case of refined resources, such as oil and gas). The Liquid Fuels Charter provides that an oil and gas company must reserve not less than 9% for Historically Disadvantaged South Africans ("**HDSA**") to buy-in to any offshore production right granted. On the advice of South African counsel, the Board believes that the HDSA buy-in will also apply to onshore production rights in South Africa, including any right granted pursuant to the TCP. Similarly, the State has an option to acquire an interest of up to 10% in any production right granted. However, it is not required to pay any consideration for its 10% interest or contribute to past costs, but must contribute pro rata in accordance with its interest towards production costs going forward.

Corporation tax in South Africa is imposed at a rate of 28% of taxable income. Dividends tax is imposed on the shareholder at a rate of 15%.

Discoveries and Prospectivity
In its entirety, the Karoo Basin is approximately 173 million acres (approximately 700,000 km^2) in size located in central and southern South Africa and contains thick, organic rich shales such as the Permian Whitehill Formation. The Karoo describes a geological period lasting some 120 million years and the rocks laid down during that period of time, covering the late Paleozoic to early Mesozoic interval periods. These rocks were deposited in a large regional basin and resulted in the build-up of extensive deposits. Until recently, the Karoo Basin was not considered prospective for commercial hydrocarbons resulting in very limited modern hydrocarbon exploration onshore in South Africa. In an independent report dated April 2011, the U.S. Energy Information Administration ("**EIA**") estimated that there are 485 Tcf technically recoverable resources in the Karoo Basin which would rank it fifth in the world after China, USA, Argentina and Mexico for shale gas potential. In particular the Permian Ecca group contains three potential shales identified as having potential for shale gas. The shale in the Whitehall Formation, in particular, is ubiquitous, has a high organic content and is thermally mature for gas.

Current activity
In December 2012, Falcon entered into an exclusive cooperation agreement with Chevron to jointly seek unconventional exploration opportunities in the Karoo Basin. The Chevron Agreement provides for Falcon to work exclusively with Chevron for a period of five years to jointly seek to obtain exploration rights in the Karoo Basin subject to the parties mutually agreeing participation terms applicable to each right. As part of the Chevron Agreement, Chevron made a cash payment to Falcon of $1 million in February 2013 as a contribution to past costs.

Makó Trough, Hungary

Overview
Falcon has been active in the Makó Trough since 2005 when it acquired two exploration licences, the Makó and the Tisza exploration licences. Between 2005 and 2007, Falcon pursued a work programme consisting of the acquisition of 1,100 km^2 of 3D seismic data and a six-well drilling programme. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. In 2007, Falcon's subsidiary, TXM, was awarded the 35-year Makó Production Licence which covers some of the acreage originally covered by the Makó and the Tisza exploration licences.

Hungary is an established oil and gas producing country. The Makó Production Licence is in the vicinity of the largest producing field in Hungary, the MOL Group owned and operated Algyö field, which has produced approximately 2.5 Tcf and 220 Mmbo to date. The Makó Production Licence is located approximately ten kilometres to the east of the MOL Group owned and operated Algyö field and is transected by existing gas pipelines and infrastructure, including a

12 kilometre gas pipeline built by Falcon in 2007, together offering transport and potential access to local markets and larger distribution centres for international markets.

Makó Production Licence
The Makó Production Licence was granted by the Hungarian Mining Authority over a gas exploration project in the Makó Trough, located in south-eastern Hungary. The lands within the Makó Production Licence were formerly part of the Group's two hydrocarbon exploration licences – the Tisza exploration licence and the Makó exploration licence.

The Makó Production License covers approximately 245,775 acres (approximately 1,000 km^2) and is held 100% by TXM, a wholly owned subsidiary of the Group. Under the terms of the Makó Production Licence, the Group is obliged to pay a 12% royalty to the Hungarian Government on any unconventional production and has a further 5% royalty payable under an agreement with Prospect Resources Inc., the previous owners of the acreage covered by the Makó Production Licence. Corporate profits are taxed at 19%. In 2009, an additional profit based energy industry tax, levied on energy supplying companies, was introduced. The rate was originally set at 8% but, as part of Hungary's third package of austerity measures, the rate has increased to 31% from 2013, with deductions allowable for certain capital expenditures. TXM is the operator and there are no outstanding work commitments on the Makó Production Licence.

Discoveries and Prospectivity
The Makó Trough contains two plays:
- a play targeting gas prospects in the shallower Algyö Play at depths between 2,300 metres and 3,500 metres; and
- a deeper unconventional play targeting significant contingent resources in the Deep Makó Trough.

The Algyö Play
The Algyö Play is a relatively shallow play of between 2,300 and 3,500 metres. A number of Falcon wells have been drilled through the Algyö Play in recent years, some of which encountered gas shows, but to date none of these wells tested the shallow play concept at an optimal location, as these wells targeted the Deep Makó Trough, at intervals of up to 6,000 metres. Multiple Algyö prospects have subsequently been identified by the Group through extensive AVO analysis, and 3D seismic data has shown the presence of possible gas zones above the Szolnok formation (part of the Deep Makó Trough). In total, ten prospects have been identified within the Algyö Play from which RPS Energy, in its independent CPR, estimates eight prospects contain gross unrisked recoverable prospective gas resources of 568 billion cubic feet ("**Bcf**") (P50).

In January 2013, Falcon agreed a three-well drilling exploration programme with Naftna industrija Srbije jsc ("**NIS**"), owned 56% by Gazprom Group, to target the Algyö Play, whereby NIS made a cash payment of $1.5 million to Falcon in February 2013, and agreed to drill three exploration wells by July 2014. NIS will earn, after undertaking the three-well drilling obligation, 50% of the net production revenues from the three wells drilled. The Board estimates that the gross costs of the three-well drilling programme will be approximately $21 million. In addition, NIS will have an option to acquire a right of first negotiation for future drilling operations in the Algyö Play, sharing any potential future costs and revenue with the Group, on terms to be negotiated, after paying Falcon $2.75 million. Falcon will be fully carried on the drilling and testing of three exploration wells and will retain 100% interest in the Deep Makó Trough.

The Deep Makó Trough
This is a deeper unconventional play targeting gas, and to a lesser extent oil, in the low permeability and low porosity rocks in the deeper horizons of the basin. RPS Energy in its independent CPR estimates gross recoverable contingent resources for the Deep Makó Trough of 35.3 Tcf of gas and 76.7 Mmbo of oil (P50).

Between 2005 and 2007, Falcon acquired 1,100 km^2 of 3D seismic data and executed a six-well drilling programme on the Deep Makó Trough. Early exploration efforts focused on proving hydrocarbon potential and delineation of the basin in order to secure the Makó Production Licence. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. Several wells flowed gas on test and one well, the Magyarcsanád-1, tested light oil. The deepest well was the Makó-7 which, along with the Makó-4, was not tested. The Makó-7 results demonstrated the presence of a very large column of hydrocarbons in the well-bore. In 2007, Falcon constructed a 12 kilometre gas pipeline which connected the Makó-6 and Makó-7 wells with a MOL operated pipeline, offering potential access to local and international markets. The Company intends to re-enter the untested Makó-7 and Makó-4 wells and will seek a technically and financially capable partner to test and produce the shale gas and tight gas formations in the Deep Makó Trough.

Current Activity
Initial drilling operations on the first joint well between NIS and Falcon, Kútvölgy-1 well have now ceased, the well having reached total depth ("**TD**") of 3,305 metres. As prognosed, the top of the Algyö formation was encountered at

2,985 metres; the well then penetrating an alternating sequence of sandstones, siltstones and shales over a gross interval of 320 metres to TD, with gas shows throughout. Two conventional cores have been taken and extensive wireline logs were run. As planned the well has been cased to TD and is now suspended while further technical evaluation is undertaken prior to carrying out an appropriate testing programme later this year. No operational problems or accidents occurred during drilling. The location of the second of the three well programme will be decided after a full evaluation of the Kútvölgy-1 well results. Operations on the second well are expected to commence in Quarter 4 this year.

Alberta, Canada

For the six months ended 30 June 2013, Falcon had revenue of $7,000 (2012: $5,000) which was earned from non-operating working interests in three producing, and one shut-in, natural gas wells located in Alberta, Canada. Falcon does not anticipate any further exploration or development of these wells and no further material revenue is expected to be generated or material costs incurred.

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RESULTS OF OPERATIONS

This review of the results of operations should be read in conjunction with the interim condensed consolidated financial statements for the three and six months ended 30 June 2013 and 2012, and the audited consolidated financial statements for the year ended 31 December 2012.

Management's Discussion and Analysis of financial condition and results of operations for the three months ended 30 June 2013 as compared to the three months ended 30 June 2012

The Company reported a net loss of $1.9 million for 2013 as compared to a net loss of $5.9 million for 2012. Changes between 2013 and 2012 were as follows:

(In thousands of $)	**Three months ended 30 June**		**Change**	
	2013	**2012**	**$**	**%**
Revenue				
Oil and natural gas revenue	**4**	5	(1)	(20)
Expenses				
Exploration and evaluation expenses	**(210)**	(429)	219	(51)
Production and operating expenses	**(7)**	(7)	-	-
Depletion and depreciation	**(62)**	(171)	109	(64)
General and administrative expenses	**(1,419)**	(1,702)	283	(17)
Share based compensation	**(178)**	(913)	735	(81)
Restructuring expenses	**-**	(612)	612	(100)
Other income	**102**	101	1	1
	(1,774)	(3,733)	1,959	(52)
Results from operating activities	**(1,770)**	(3,728)	1,958	(53)
Fair value gain / (loss) – outstanding warrants	**557**	(1,108)	1,655	(150)
Finance income / (expense)				
Interest income on bank deposits	**57**	18	39	217
Derivative gain / (loss)	**24**	(40)	64	(160)
Effective interest on loans and borrowings	**(917)**	(867)	(50)	6
Accretion of decommission provisions	**(34)**	(61)	27	(44)
Net foreign exchange gain / (loss)	**187**	(86)	273	(317)
	(683)	(1,036)	353	(34)
Net loss and comprehensive loss	**(1,896)**	(5,872)	3,976	(68)
Net loss and comprehensive loss attributable to:				
Equity holders of the company	**(1,805)**	(5,802)	3,997	
Non-controlling interest	**(91)**	(70)	(21)	
Net loss and comprehensive loss	**(1,896)**	(5,872)	3,976	

Oil and natural gas revenue

Oil and natural gas revenue of $4,000 (2012: $5,000) includes sale of natural gas from the Hackett Interests in Alberta, Canada of $4,000 in 2013 (2012: $2,000) and $3,000 in 2012 for production from the exploratory wells in Hungary. The Company has not yet realised revenue from its planned operations elsewhere.

Exploration and evaluation expenses

Exploration and evaluation expenses decreased by $0.2 million to $0.2 million in 2013 from $0.4 million in 2012. This decrease is primarily attributable to function and integrity testing of the Makó 7 in 2012 which was not repeated in 2013. 2013 expenses represent recurring maintenance to safeguard the company's existing Hungarian wells.

Depletion and depreciation

2013 depletion and depreciation expense consist of depreciating assets and equipment at the Group's Budapest and Dublin offices. Included in the 3 months ended 30 June 2012 charge is an accelerated amount of $0.1 million related to furniture and equipment in the now closed Denver office**.**

General and administrative expenses

(In thousands of $)	**Three months ended 30 June**		**Change**	
	2013	**2012**	**$**	**%**
General and Administrative expenses				
Accounting and audit fees	(180)	(136)	(44)	32
Consulting fees	(134)	(228)	94	(41)
Legal fees	(167)	(148)	(19)	13
Investor relations	(136)	(9)	(127)	1,411
Office and Administrative costs	(246)	(461)	215	(47)
Payroll and related costs	(396)	(499)	103	(21)
Directors' fees	(69)	(90)	21	(23)
Travel and promotion	(91)	(131)	40	(31)
	(1,419)	**(1,702)**	**283**	**(17)**

General and administrative expenses decreased $0.3 million to $1.4 million in 2013 from $1.7 million in 2012. The significant components of changes in general and administrative expenses in 2013 as compared to 2012 were as follows:

- Accounting and audit fees: The increase occurred due to the front loading of certain accounting projects which occurred in quarter 3 and quarter 4 of 2012 but occurred in quarter 2 of 2013.
- Consulting and Legal fees: The overall decrease was attributable to a continued decrease in the use of outside consultants and counsel and increased focus on cost containment by management during the period. However certain costs, in particular addressing industry environmental concerns in Hungary, resulted in certain studies being commissioned in 2013 which were not incurred in 2012.
- Investor relations: One of the main focuses of the Group's new management, who commenced in mid-2012, was and is to actively engage with its shareholders and investors. This has resulted in increased expense in this area in 2013. It is expected that expenditure in this area will be maintained going forward.
- Office and Administrative: The decrease was attributable to a decrease in occupancy costs associated with the Denver office due to its closure during Quarter 3 of 2012 and an overall reduction in operating overhead costs.
- Payroll and related cost: The decrease was attributable to the closure of the Denver office in Quarter 3, 2012 and the resulting reduction in the management team.
- Travel and promotion decreased in the current period over the prior year due to the closure of the Denver office in Quarter 3 of 2012 and increased focus by new management on cost containment. Certain levels of travel and promotion costs are and will be incurred due to the international geography of the Group's assets and investor base.

Share based compensation

Share based compensation decreased by $0.7 million to $0.2 million in 2013. The 3 months to 30 June 2012 was primarily effected by the cost associated with the grant of 17 million share options in 2011 and an additional $0.5 million due to the accounting modification of said options granted to employees and consultants being terminated as a result of the decision to relocate the corporate headquarters. The majority of the remaining expense associated with these options was accelerated due to the closure of the Denver office and was expensed in late 2012. The 3 months to 30 June 2013, contains primarily the apportioned cost of the 6 million options granted in May 2012 and the initial costs of the 9.9 million share options issued in April 2013.

Restructuring expense
Restructuring expense of $0.6 million was recognised in 2012 as a result of the Company's decision to relocate its corporate headquarters from Denver, Colorado to Dublin, Ireland, and consists of severance and health benefits – $0.4 million and rent expense, net of sublease – $0.2 million. The Denver office closed on 28 September 2012. This expense was not repeated in 2013.

Other income
Other income has increased in the current period primarily due to the work being carried out by TXM in providing geological and geophysical services to NIS as part of NIS's drilling of the three well programme. This has been offset in reductions from renting various pieces of equipment temporarily from our Hungarian operations which was not repeated in 2013.

Fair value gain / (loss) – outstanding warrants
Fair value gain / (loss) – outstanding warrants decreased from a loss of $1.1 million in 2012 to a gain of $0.6 million in 2013. The decrease occurred due to the volatility changes in the fair value of derivative instruments. The primary variable was the movement in the Falcon share price over the period. As at 30 March 2012 Falcon's share price (as quoted on the TSX-V) was 9 cents; 30 June 2012 – 12 cents; 30 March 2013 – 22 cents and 30 June 2013 – 24 cents. Movements in exchange in the Canadian and US$ also contributed to the variability.

Finance income / (expense)
Net Finance expense decreased from $1 million in 2012 to $0.7 million in 2013, a movement of $0.3 million. The decrease occurred primarily due to the movement in the effective interest rate on the issued debentures and an exchange gain on the repayment of the debentures in June 2013.

Net loss attributable to non-controlling interest
The amounts reflected in 2013 and 2012 represent 27.3% of Falcon Australia's losses attributable to shareholders other than Falcon.

On 24 May 2013, the Group announced that it has executed a conditional agreement with Sweetpea Petroleum Pty Ltd, a wholly-owned subsidiary of PetroHunter Energy Corporation ("**Sweetpea**") the ("**Agreement**"), to acquire its 50 million shares or 24.22% interest in Falcon Australia (the "**Share Purchase**"). Prior to this announcement Falcon owned 150 million shares in Falcon Australia representing 72.68% of its issued share capital. Upon completion of the Agreement, Falcon's shareholding in Falcon Australia increased to 200 million shares representing 96.90% of the issued share capital of Falcon Australia. The terms of the Agreement included a cash consideration of $3 million together with the issue of 97.86 million Falcon shares ("**New Falcon Shares**") to Sweetpea. Based on Falcon's share price, at the time the Share Purchase was agreed between the parties of CDN$0.20, the total value of the consideration was CDN$22.6 million. Upon completion of the Agreement, Sweetpea's shareholding in the enlarged share capital of Falcon was 10.7%. The transaction closed on 17 July 2013.

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Management's Discussion and Analysis of financial condition and results of operations for the six months ended 30 June 2013 as compared to the six months ended 30 June 2012

The Company reported a net loss of $6.6 million for 2013 as compared to a net loss of $7.7 million for 2012. Changes between 2013 and 2012 were as follows:

(In thousands of $)	**Six months ended 30 June**		**Change**	
	2013	**2012**	**$**	**%**
Revenue				
Oil and natural gas revenue	**7**	11	(4)	(36)
Expenses				
Exploration and evaluation expenses	**(408)**	(1,114)	706	(63)
Production and operating expenses	**(12)**	(12)	-	-
Depletion and depreciation	**(207)**	(238)	31	(13)
General and administrative expenses	**(2,604)**	(3,247)	643	(20)
Share based compensation	**(273)**	(1,441)	1,168	(81)
Restructuring expenses	**-**	(612)	612	(100)
Other income	**339**	238	101	42
	(3,165)	(6,426)	3,261	(51)
Results from operating activities	**(3,158)**	(6,415)	3,257	(51)
Fair value (loss) / gain – outstanding warrants	**(1,324)**	622	(1,946)	(313)
Finance income / (expense)				
Interest income on bank deposits	**63**	38	25	66
Derivative gains	**26**	(14)	40	(285)
Effective interest on loans and borrowings	**(2,352)**	(1,674)	(678)	41
Accretion of decommission provisions	**(70)**	(117)	47	(40)
Net foreign exchange gain / (loss)	**173**	(163)	336	(206)
	(2,160)	(1,930)	(230)	12
Net loss and comprehensive loss	**(6,642)**	(7,723)	1,081	(14)
Net loss and comprehensive loss attributable to:				
Equity holders of the company	**(6,506)**	(7,562)	1,056	
Non-controlling interest	**(136)**	(161)	25	
Net loss and comprehensive loss	**(6,642)**	(7,723)	1,081	

Oil and natural gas revenue
Oil and natural gas revenue of $7,000 (2012: $11,000) includes sale of natural gas from the Hackett Interests in Alberta, Canada of $7,000 in 2013 (2012: $5,000) and $6,000 in 2012 for production from the exploratory wells in Hungary. The Company has not yet realised revenue from its planned operations elsewhere.

Exploration and evaluation expenses

Exploration and evaluation expenses decreased by $0.7 million to $0.4 million in 2013 from $1.1 million in 2012. Expenses related to the Hungarian interests decreased by $0.6 million to $0.4 million in 2013 from $1.0 million in 2012. This decrease is primarily attributable to function and integrity testing of the Makó 7 well in 2012 which was not repeated in 2013. 2013 expenses represent recurring maintenance to safeguard the company's existing Hungarian wells.

$0.1 million was incurred in 2012 in relation to legal, environmental and application expenses with regards the Group's South African application for an exploration permit in the Karoo Basin. No similar expenses were incurred in 2013.

Depletion and depreciation

Depletion and depreciation expense consist of depreciating assets and equipment at the Group's Budapest and Dublin offices.

General and administrative expenses

(In thousands of $)	**Six months ended 30 June**		**Change**	
	2013	**2012**	**$**	**%**
General and Administrative costs				
Accounting and audit fees	(324)	(294)	(30)	10
Consulting fees	(317)	(424)	107	(25)
Legal fees	(212)	(275)	63	(23)
Investor relations	(169)	(26)	(143)	550
Office and Administrative costs	(498)	(800)	302	(38)
Payroll and related costs	(799)	(1,010)	211	(21)
Directors' fees	(149)	(150)	1	(1)
Travel and promotion	(136)	(268)	132	(49)
	(2,604)	**(3,247)**	**643**	**(20)**

General and administrative expenses decreased $0.6 million to $2.6 million in 2013 from $3.2 million in 2012. The significant components of changes in general and administrative expenses in 2013 as compared to 2012 were as follows:

- Accounting and audit fees: The increase occurred due to the front loading of certain accounting projects which occurred in quarter 3 and quarter 4 of 2012 but occurred in quarter 2 of 2013.
- Consulting and Legal fees: The decrease was attributable to a continued decrease in the use of outside consultants and counsel and increased focus on cost containment by management during the period. However certain costs, in particular addressing industry environmental concerns in Hungary, resulted in certain studies being commissioned in 2013 which were not incurred in 2012.
- Investor relations: One of the main focuses of the Group's new management, who commenced in mid-2012, was and is to actively engage with its shareholders and investors. This has resulted in increased expense in this area in 2013. It is expected that expenditure in this area will be maintained going forward.
- Office and Administrative: The decrease was attributable to a decrease in occupancy costs associated with the Denver office due to its closure during Quarter 3 of 2012 and an overall reduction in operating overhead costs.
- Payroll and related cost: The decrease was attributable to the closure of the Denver office in Quarter 3 of 2012 and the resulting reduction in the management team.
- Travel and promotion decreased in the current period over the prior year due to the closure of the Denver office in Quarter 3 of 2012 and increased focus by new management on cost containment. Certain levels of travel and promotion costs are and will be incurred due to the international geography of the Group's assets and investor base.

Share based compensation

Share based compensation decreased by $1.2 million to $0.3 million in 2013. The 6 months to 30 June 2012 was primarily effected by the cost associated with the grant of 17 million share options in 2011 and an additional $0.5 million due to the accounting modification of said options granted to employees and consultants being terminated as a result of the decision to relocate the corporate headquarters. The majority of the remaining expense associated with these options was accelerated due to the closure of the Denver office and was expensed in late 2012. The 6 months to 30 June 2013, contains primarily the apportioned cost of the 6 million options granted in May 2012 and the initial costs of the 9.9 million share options issued in April 2013.

Restructuring expense
Restructuring expense of $0.6 million was recognised in 2012 as a result of the Company's decision to relocate its corporate headquarters from Denver, Colorado to Dublin, Ireland, and consists of severance and health benefits – $0.4 million and rent expense, net of sublease – $0.2 million. The Denver office closed on 28 September 2012. This expense was not repeated in 2013.

Other income
Other income has increased in the current period primarily due to the work being carried out by TXM in providing geological and geophysical services to NIS as part of NIS's drilling of the three well programme.

Fair value (loss) / gain – outstanding warrants
Fair value (loss) / gain – outstanding warrants decreased from a gain of $0.6 million in 2012 to a loss of $1.3 million in 2013. The decrease occurred due to the volatility changes in the fair value of derivative instruments. The primary variable was the movement in the Falcon share price over the period. As at 31 December 2011 Falcon's share price (as quoted on the TSX-V) was 11 cents; 30 June 2012 – 12 cents; 31 December 2012 – 18 cents and 30 June 2013 – 24 cents. Movements in exchange in the Canadian and US$ also contributed to the variability.

Finance income / (expense)
Net Finance expense increased from $1.9 million in 2012 to $2.2 million in 2013, a movement of $0.2 million. The increase occurred primarily due to the movement in the effective interest rate on the issued debentures and an exchange gain on the repayment of the debentures in June 2013.

Net loss attributable to non-controlling interest
The amounts reflected in 2013 and 2012 represent 27.3% of Falcon Australia's losses attributable to shareholders other than Falcon.

On 24 May 2013, the Group announced that it has executed a conditional agreement with Sweetpea, to acquire its 50 million shares or 24.22% interest in Falcon Australia. Prior to this announcement Falcon owned 150 million shares in Falcon Australia representing 72.68% of its issued share capital. Upon completion of the Agreement, Falcon's shareholding in Falcon Australia increased to 200 million shares representing 96.90% of the issued share capital of Falcon Australia. The terms of the Agreement included a cash consideration of $3 million together with the issue of 97.86 million Falcon shares to Sweetpea. Based on Falcon's share price, at the time the Share Purchase was agreed between the parties of CDN$0.20, the total value of the consideration was CDN$22.6 million. Upon completion of the Agreement, Sweetpea's shareholding in the enlarged share capital of Falcon was 10.7%. The transaction closed on 17 July 2013.

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SUMMARY OF QUARTERLY RESULTS

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

(In thousands of $ unless otherwise stated)

As of:	**30 September 2012**	**31 December 2012**	**31 March 2013**	**30 June 2013**
Total assets	85,513	86,013	107,448	94,475
Exploration and evaluation assets	72,209	74,019	72,643	72,777
Working capital	(3,559)	(6,945)	12,704	8,039
Total shareholders' equity	47,665	46,913	65,851	64,186

For the three months ended:	**30 September 2012**	**31 December 2012**	**31 March 2013**	**30 June 2013**
Revenue	1	9	3	4
Net loss	(8,918)	(1,074)	(4,746)	(1,896)
Net loss attributable to common shareholders	(8,891)	(988)	(4,701)	(1,805)
Net loss per share-basic and diluted (cent)	(0.013)	(0.0014)	(0.007)	(0.002)

As of:	**30 September 2011**	**31 December 2011**	**31 March 2012**	**30 June 2012**
Total assets	124,287	94,901	90,096	87,711
Exploration and evaluation assets	91,437	70,977	70,690	71,683
Working capital	21,519	13,983	11,321	688
Total shareholders' equity	90,592	61,822	60,590	55,701

For the three months ended:	**30 September 2011**	**31 December 2011**	**31 March 2012**	**30 June 2012**
Revenue	7	9	6	5
Net loss	(759)	(29,361)	(1,851)	(5,872)
Net loss attributable to common shareholders	(645)	(29,308)	(1,760)	(5,802)
Net loss per share-basic and diluted (cent)	(0.001)	(0.044)	(0.003)	(0.008)

The Company is a development stage company, and has limited revenue which is not material. The Company's net loss and net loss per share relate to the Company's operations during a particular period, and are not seasonal in nature.

As at 31 December 2011, the Company determined that the carrying value of the Hungarian exploration and evaluation assets and the Canadian natural gas interests exceeded their estimated fair value. Consequently, in 2011, the Company reflected an impairment of Hungarian exploration and evaluation assets of $26 million and an impairment of the Canadian natural gas properties of $35,000. No similar charge has been reflected in 2012/2013 as the Company determined that there are no indicators of impairment present in accordance with IFRS 6 "Exploration for and evaluation of mineral interests".

On 14 March 2013 the Group announced its application for admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange of the Company's existing share capital and the additional 120,381,973 new common shares in the capital of the Company issued pursuant to the concurrent conditional brokered private placement at a price of £0.14 (CDN$0.215) per share raising gross proceeds of $25.7 million (£16.9 million). Trading in these shares commenced on AIM and ESM on 28 March 2013.

On 30 April 2013, the Group announced that under the stock option plan approved at Falcon's annual shareholders meeting held on 25 September 2012, it had granted incentive stock options ("**options**") to purchase an aggregate of 9.9 million common shares of Falcon. A total of 3 million options were granted at an exercise price of CDN$0.215 to Eoin Grindley, Falcon's Chief Financial Officer pursuant to the terms of his employment contract. A further 5.5 million options were granted at an exercise price of CDN$0.24 to Falcon directors and 1.4 million options were granted to Falcon employees also at CDN$0.24. The options all have a vesting schedule allowing for 1/3 of the options to vest on the first anniversary of the grant with an additional 1/3 vesting each subsequent year until the options are fully vested on 30 April 2016, and an expiry date of the options of 29 April 2018. Immediately after this award, there were 42,737,000 options outstanding, representing 5.2% of the issued share capital of the company.

On 30 June 2009, the Company completed an offering of 11,910 units at a price of $865 (CDN$1,000) per unit (the "**Offering**"). Each unit consisted of one 11% convertible unsecured debenture in the principal amount of $779 (CDN$900) (each, a "**debenture**") that matured on the fourth anniversary of its issuance (30 June 2013) pursuant to the terms of a trust indenture dated 30 June 2009 (the "**Trust Indenture**"), and 250 common shares in the capital of Falcon (the "**Unit Shares**") (collectively, a "**Unit**"). The debentures accrued interest at an annual rate of 11% calculated and payable semi-annually in arrears on 1 January and 1 July in each year. The debentures were unsecured direct obligations of the Company. The debentures and all outstanding interest were repaid at maturity on 30 June 2013.

Generally, the Company's total assets, exploration and evaluation costs, working capital and total shareholders' equity fluctuate in proportion to one another until such time as the Company completes additional financing.

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LIQUIDITY AND CAPITAL RESOURCES

Going Concern

For the year ended 31 December 2012, the Company incurred a net loss of $17.7 million and operating cash outflows of $9.3 million and as at 31 December 2012, had a retained deficit of $334.3 million. During the six months ended 30 June 2013, the Group incurred additional losses of $6.6 million.

On 14 March 2013 the Group announced its application for admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange of the Company's existing share capital and the additional 120,381,973 new common shares in the capital of the Company issued pursuant to the concurrent conditional brokered private placement at a price of £0.14 (CDN$0.215) per share raising gross proceeds of $25.7 million (£16.9 million). Trading in these shares commenced on AIM and ESM on 28 March 2013.

Having given due consideration to the cash requirements of the Group and having raised capital in the gross amount of $25.7 million, the Board has a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing this financial information which assumes the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Notwithstanding the Group's recent fundraising, the Group's ability to continue as a going concern is dependent upon either its ability to raise additional capital from the sale of additional common shares or other debt or equity instruments, asset dispositions, having producing assets and/ or entering into joint arrangement with third parties.

Working Capital

Cash and cash equivalents as at 30 June 2013 were $14.7 million, an increase of $11.8 million from $2.9 million as at 31 December 2012. Working capital as at 30 June 2013 increased to $8 million from ($6.9 million) as at 31 December 2012.

The increase to cash and cash equivalents was the result of net cash raised from financing activities amounting to $13.6 million, net cash generated from investing activities of $0.9 million offset by net cash used in operating activities of $2.9 million.

Restricted cash amounts to $0.4 million at 30 June 2013.

Accounts Receivable

Current accounts receivable as at 30 June 2013 were $0.6 million, which includes $0.2 million receivable, prepayments of $0.3 million and other of $0.1 million.

Accounts Payables and Accrued Expenses

Accounts payable and accrued expenses as at 30 June 2013 were $2.1 million which includes $2 million for accounts payable and accrued expenditure and $0.1 million for the restructuring provision associated with the closure of the Denver office.

Capital Expenditures

For the period ended 30 June 2013 no material capital expenditure was incurred.

Australia - Beetaloo Basin, Northern Territory, Australia

During 2012, costs incurred in Australia were primarily for geological and geophysical analysis, engineering and analytical evaluations, and working with the Northern Land Council and Aboriginal Area Protection Agency for site reinstatement and necessary environmental studies.

Under the terms of Falcon Australia's exploration permit EP-99, Falcon Australia must spend a minimum of $1.5 million by 31 December 2014 in collecting 2D seismic data on acreage within exploration permit EP-99. Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources.

South Africa - Karoo Basin, South Africa
On receipt of an approved exploration right in South Africa, the Group will be required to make a payment to the South African government of approximately $0.7 million as part of the process to obtain an approved work programme and an exploration permit.

Hungary - Makó Trough, Hungary
As at 30 June 2013, the Company's cumulative expenditures for the Production License and Exploration Licenses, including the acquisition, seismic testing, drilling of exploratory wells, and initial testing and completion of wells, was approximately $242 million.

The Group is not planning any independent technical operations in Hungary other than joint operations with NIS, and as such no material capital expenditures are expected.

Convertible debentures

On 30 June 2009, the Company completed an offering of 11,910 units at a price of $865 (CDN$1,000) per unit. Each unit consisted of one 11% convertible unsecured debenture in the principal amount of $779 (CDN$900) that matured on the fourth anniversary of its issuance (30 June 2013) pursuant to the terms of a trust indenture dated 30 June 2009, and 250 common shares in the capital of Falcon. The debentures accrued interest at an annual rate of 11% calculated and payable semi-annually in arrears on 1 January and 1 July in each year. The debentures were unsecured direct obligations of the Company. The debentures and all outstanding interest were repaid at maturity on 30 June 2013.

Debt and Equity Capital

The availability of debt and equity capital, and the price at which additional capital could be issued will be dependent upon the success of the Company's exploration activities, and upon the state of the capital markets generally. As noted above on 14 March 2013 the Group announced its application for admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange of the Company's existing share capital and the additional 120,381,973 new common shares in the capital of Falcon issued pursuant to the concurrent conditional brokered private placement at a price of £0.14 (CDN$0.215) per share raising gross proceeds of $25.7 million (£16.9 million). Trading in these shares commenced on AIM and ESM on 28 March 2013.

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DISCLOSURE OF OUTSTANDING SHARE DATA

The following is a summary of the Company's outstanding share data as at 30 June 2013 and 28 August 2013:

Class of securities	30 June 2013	28 August 2013
Common shares	817,336,473	915,996,473
Stock options	35,752,000	34,952,000
Private placement warrants(i)	65,287,500	65,287,500
Hess warrants(ii)	10,000,000	10,000,000

(i) Warrants to purchase 65,287,500 Common Shares at a price of CDN$0.18-CDN$0.19 per Common Share were issued to shareholders in 2011 in connection with the Falcon private placement and expire in February and April 2014.

(ii) Warrants to purchase 10,000,000 Common Shares at a price of CDN$0.19 per Common Share were issued to Hess on 13 July 2011 in connection with the Hess transaction. The Hess warrants expire on 13 January 2015.

On 24 May 2013, the Group announced that it has executed a conditional agreement with Sweetpea, to acquire its 50 million shares or 24.22% interest in Falcon Australia. Prior to this announcement Falcon owned 150 million shares in Falcon Australia representing 72.68% of its issued share capital. Upon completion of the Agreement, Falcon's shareholding in Falcon Australia increased to 200 million shares representing 96.90% of the issued share capital of Falcon Australia. The terms of the Agreement included a cash consideration of $3 million together with the issue of 97.86 million Falcon shares to Sweetpea. Based on Falcon's share price, at the time the Share Purchase was agreed between the parties of CDN$0.20, the total value of the consideration was CDN$22.6 million. Upon completion of the Agreement, Sweetpea's shareholding in the enlarged share capital of Falcon was 10.7%. The transaction closed on 17 July 2013. The New Falcon Shares will be held in an Escrow account with the New Falcon Shares locked up for three years, and Sweetpea, commencing from the date of closing, being permitted to sell 15% each year during the lock up period.

Refer to section "OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS" for details of a proposed transaction which if approved would result in the Company issuing up to 11,009,783 additional shares.

LEGAL MATTERS

The Company may, from time to time, be involved in various claims, lawsuits, disputes with third parties, or breach of contract incidental to the operations of its business. The Company is not currently involved in any claims, disputes, litigation or other actions with third parties which it believes could have a material adverse effect on its financial condition or results of operations.

RELATED PARTY TRANSACTIONS

The following are the related party transactions which occurred during the period:

Dr. György Szabó Consulting Agreement
On 27 February 2009, Dr. György Szabó entered into a consulting agreement (the "**GS Consulting Agreement**") with TXM, pursuant to which Dr. Szabó agreed to act as Managing Director of TXM, to perform certain oil and gas services for TXM and to not compete directly or indirectly with TXM during his employment with TXM. Dr. Szabó is paid a monthly fee of $5,000. The GS Consulting Agreement contains standard confidentiality provisions. TXM may terminate the GS Consulting Agreement at any time, with or without cause, for any lawful reason whatsoever, upon TXM providing Dr. Szabó with sixty days' prior written notice.

The GS Consulting Agreement expired on 31 December 2009, however Dr. Szabó has continued to provide general managerial services to TXM and to receive the same monthly fee. Dr. Szabó was paid $30,000 pursuant to the GS Consulting Agreement in the six months ending 30 June 2013.

P&S Consulting Agreement
On 4 May 2005, P&S Mérnöki Kereskedelmi-Tanácsadó Bt. ("**P&S**") entered into a consulting agreement (the "**P&S Agreement**") with TXM, pursuant to which P&S agreed to provide certain consulting services to TXM in connection with TXM's objectives of drilling wells on the Makó and Tisza licences. The P&S Agreement was amended on 28 November 2005 and further amended on 1 June 2006, 1 January 2008, 1 January 2009 and 1 April 2010. P&S is wholly-owned by a family member of Dr. Szabó, a current Director of the Company.

Under the terms of the P&S Agreement, TXM was obligated to pay P&S a monthly services fee of HUF 750,000. The P&S Agreement contains standard confidentiality provisions and provides that P&S shall not compete with TXM during the term of the P&S Agreement.

TXM may terminate the P&S Agreement at any time, with or without cause, for any lawful reason whatsoever, upon TXM providing P&S with 30 days, prior written notice. TXM and P&S have further amended the terms of the P&S Agreement by oral agreement. Pursuant to the amended P&S Agreement, P&S is paid a monthly fee of $8,500 (effective 1 January 2013) (2012: $10,000) plus reasonable expenses incurred by Dr. Szabó as an employee of P&S, such amounts thereafter paid to Dr. Szabó from P&S. P&S was paid $51,000 pursuant to the agreement in the six months ending 30 June 2013.

In addition, a car is provided to Dr. Szabó.

Dr. Gábor Bada
On 28 December 2012, Dr. Bada entered into an employment agreement (the "**Bada Employment Agreement**") with TXM pursuant to which Dr. Bada agreed, subject to certain conditions, to perform certain geological services for TXM. In addition, on 1 January 2013, Dr. Bada verbally agreed the terms on which he was to provide geological services to TXM as a consultant. Dr. Bada will be paid a consultancy fee of $20,000 in 2013 in relation to this work.

The Bada Employment Agreement contains standard confidentiality provisions. Dr. Gábor Bada received a consultancy fee of $10,000 through his company in the six months ending 30 June 2013.

March 2013 Private placement
On 14 March 2013 the Group announced its application for admission to trading on the AIM market of the London Stock Exchange and the ESM market of the Irish Stock Exchange of the Company's existing share capital and the additional 120,381,973 new common shares in the capital of Falcon issued pursuant to the concurrent conditional brokered private placement at a price of £0.14 (CDN$0.215) per share raising gross proceeds of $25.7 million (£16.9 million) (the "**Placing**"). The following deemed related parties participated in the Placing:

Directors	**Previous shareholding**	**March 2013 Placing participation**	**Enlarged shareholding***	**% of enlarged share capital***
John Craven	500,000	2,357,143	2,857,143	0.35%
Philip O'Quigley	1,000,000	513,696	1,513,696	0.19%
Gregory Smith	420,000	50,000	470,000	0.06%
David Harris	-	150,000	150,000	0.02%

*immediately post-Placing.

April 2013 Stock Options
On 30 April 2013 a total of 3 million options were granted at an exercise price of CDN$0.215 to Eoin Grindley, Falcon's Chief Financial Officer pursuant to the terms of his employment contract. A further 5.5 million options were granted at an exercise price of CDN$0.24 (a 23% premium to the closing share price on 30 April 2013) to the following Falcon directors:

Directors	**Number of options granted**	**Total number of Options held after grant**
John Craven	2,000,000	3,100,000
Igor Akhmerov	2,500,000	2,900,000
Daryl Gilbert	200,000	2,900,000
Gregory Smith	200,000	1,000,000
Joachim Conrad	300,000	1,000,000
David Harris	300,000	300,000

Oakridge Financial Management Inc.
The Group has engaged Oakridge Financial Management Inc. to assist in liasing with the Canadian Revenue Agency to ensure employment taxes applicable on payments made to Canadian residents are appropriately calculated and remitted. Mr. Greg Smith, a current director of Falcon, is the sole shareholder in Oakridge Financial Management Inc. The Group has incurred costs of approximately CDN$1,000 to the company during the 6 months ended 30 June 2013.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

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

The following proposed transaction is in progress.

On 24 July 2013, the Group announced that it has offered to purchase shares from certain of the remaining shareholders in Falcon Australia. The offer was comprised of 2.25 common shares in Falcon for every one Falcon Australia ordinary share held. This offer was valid until 22 August 2013. The valuation used in this offer was the same as used in the recently completed acquisition of Sweetpea's 24.2% holding in Falcon Australia. The maximum of Falcon Shares that may be issued in connection with this offer is 11,009,783. The offer is subject to TSX Venture Exchange approval. This transaction is in the process of closing.

NEW ACCOUNTING PRONOUNCEMENTS

The Interim Condensed Consolidated Financial Statements ("**Interim Statements**") of Falcon Oil & Gas Ltd and its subsidiaries have been prepared in accordance with IAS 34 'Interim Financial Reporting' and, except as described below, on the basis of the same accounting principles as, and should be read in conjunction with, the Consolidated Financial Statements for the year ended 31 December 2012 (pages 8 to 16) as filed on the Canadian Securities Administrator's System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

The following interpretations or amended standards are mandatory for the first time for the financial year beginning 1 January 2013, and are either not relevant to the Group or they do not have any significant impact on the condensed interim Statements:

- Amendments to IAS 1, 'Presentation of financial statements'
- Amendments to IAS 19, 'Employee benefits'
- Amendments to IFRS 7 'Financial Instruments' on Asset and Liability Offsetting
- IFRS 10, 'Consolidated Financial Statements'
- IFRS 11, 'Joint arrangements'
- IFRS 12, 'Disclosure of Interest in Other Entities'
- IAS 27 (revised), 'Separate Financial Statements'
- IAS 28 (revised), 'Investments in Associates and Joint Ventures'
- Improvements to IFRSs (2009-2011)

The adoption of the requirements of IFRS 13 'Fair value Measurement' has resulted in additional disclosures in the Interim Condensed Consolidated Financial Statements for the three and six months ended 30 June 2013 and 2012.

BUSINESS RISKS AND UNCERTAINTIES

Risks and uncertainties that could cause the Company's actual results to materially differ from current expectations have not changed from those disclosed in the Company's MD&A as at 31 December 2012.

CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates that could cause the Company's actual results to materially differ from current expectations have not changed from those disclosed in the Company's MD&A and Consolidated Financial Statements for the year ended 31 December 2012.

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.

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