



FALCON OIL & GAS LTD.

ANNUAL INFORMATION FORM

For the Fiscal Year Ended

December 31, 2008

April 30, 2009

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Interpretation

Where used herein, a reference to “**Company**” or “**its**” and other similar such words refers to Falcon Oil & Gas Ltd. together with its directly and indirectly wholly-owned subsidiaries listed under “*Corporate Structure*”. References to “**Falcon**” refer to Falcon Oil & Gas Ltd., only.

All financial information in this Annual Information Form has been prepared in accordance with generally accepted accounting principles in Canada. Unless otherwise stated, all dollar amounts herein are in dollars of the United States of America (“**US**”).

Unless otherwise noted, the information given herein is as at December 31, 2008.

Forward-Looking Statements

This Annual Information Form and the documents incorporated by reference herein contain estimates and assumptions that management is required to make regarding future events and may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements may be identified by use of forward-looking words, such as “expects” include words such as “estimates”, “plans”, “anticipates”, “believes”, “opinions”, “forecasts”, “projections”, “guidance”, “may”, “could”, “will”, “potential”, “intend”, “should”, “predict” or other statements that are not statements of fact. Although the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will be realized. These statements are subject to certain risks and uncertainties and may be based on assumptions that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements. The Company’s forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Readers of this Annual Information Form and the documents incorporated by reference herein are cautioned not to rely on these forward-looking statements. Falcon is providing this information as of the date of this Annual Information Form and as at the date noted on the documents incorporated by reference herein, respectively, and does not undertake any obligation to update any forward-looking statements contained herein or therein, respectively, as a result of new information, future events or otherwise.

Documents Incorporated by Reference

The following documents, referenced herein, have been previously filed on the Canadian Securities Administrator’s System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and are incorporated by reference herein:

1. Statement of Reserves Data and Other Oil and Gas Information with an effective date of February 6, 2009 (the “**51-101F1 Report**”).
2. Report on Reserves Data by prepared by Chapman Petroleum Engineering Ltd. (“**Chapman**”) dated March 17, 2009 (the “**51-101F2 Report**”).
3. Report of Management and Directors on Reserves Data and Other Information dated April 30, 2009 (the “**51-101F3 Report**”).
4. The material change report of Falcon dated October 3, 2006 with respect to the release of The Scotia Group, Inc.’s resource estimate of the Makó Trough within the production license area of Falcon’s deep gas exploration project in southeastern Hungary (the “**Makó Trough**” or the

- “Hungary Project”**), dated September 15, 2006 and effective August 15, 2006 (the **“Scotia Report”**).
5. The material change report of Falcon dated April 15, 2008 with respect to the entering into of a production and development agreement (the **“PDA”**) between Falcon and TXM, and Exxon Mobil Corporation’s affiliate Esso Exploration International Limited (**“ExxonMobil”**).
 6. The material change report of Falcon dated May 15, 2008 with respect to the release of RPS Scotia, Inc.’s (**“RPS Scotia”**) updated resource estimate of the Makó Trough, dated May 2, 2008 and effective March 31, 2008 (the **“RPS Scotia Report”**).
 7. The material change report of Falcon dated September 3, 2008 with respect to the Company’s entering into the Purchase and Sale Agreement between PetroHunter Energy Corporation (**“PetroHunter”**), Sweetpea Petroleum Pty Ltd (**“Sweetpea”**), Falcon and Falcon Australia (as hereinafter defined) dated August 22, 2008 and the Purchase and Sale Agreement between PetroHunter, PetroHunter Operating Company, Falcon and Falcon USA (as hereinafter defined) dated August 22, 2008 (the **“Buckskin PSA”**).
 8. The material change report of Falcon dated October 9, 2008 announcing, among other things, the closing of the Beetaloo Basin Transaction (as hereinafter defined) and the \$5 million loan to PetroHunter (the **“PetroHunter Loan”**).
 9. The material change report of Falcon dated November 12, 2008 announcing the closing of the Initial Buckskin Mesa Transaction (as hereinafter defined).
 10. The material change report of Falcon dated December 10, 2008 announcing an amendment to the PDA (the **“Amendment”**).
 11. The material change report of Falcon dated December 11, 2008 announcing an amendment to the PetroHunter Loan.
 12. The material change report of Falcon dated March 3, 2009 with respect to its decision not to exercise its contractual option under the Buckskin PSA (the **“Buckskin Option”**) to acquire a 50% working interest in PetroHunter’s 20,000 acre Buckskin Mesa Project (the **“Buckskin Mesa Project”**) located in the Piceance Basin, Colorado.

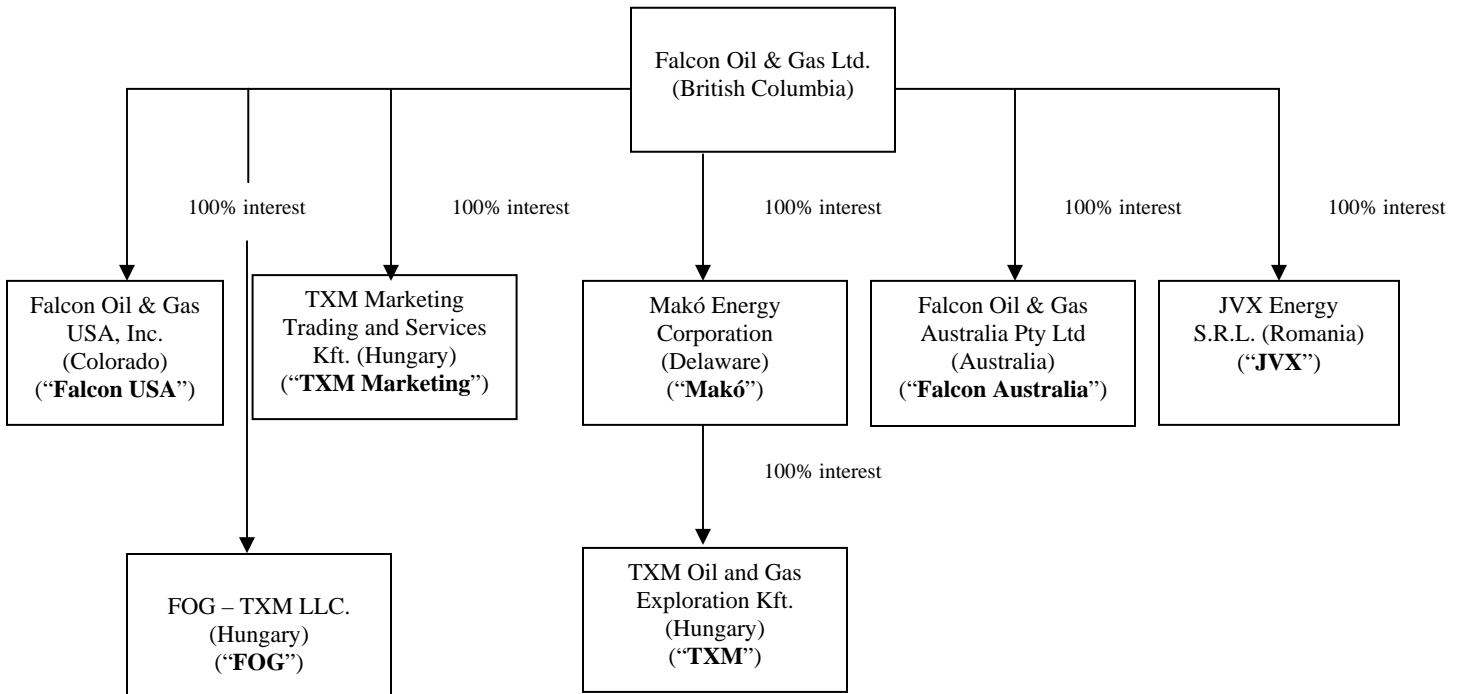
CORPORATE STRUCTURE

Falcon was incorporated on January 18, 1980, pursuant to the laws of the Province of British Columbia by the registration of memorandum and articles with the British Columbia Registrar of Companies under the name Sanfred Resources Ltd. (**“Sanfred”**). On December 21, 1999, Sanfred consolidated its authorized and issued share capital and changed its name to Falcon Oil & Gas Ltd. On March 2, 2005, Falcon’s transition application under the new *Business Corporations Act* (British Columbia) (**“BCBCA”**) was filed and accepted.

The Company’s head office is located at 1875 Lawrence Street, Suite 1400, Denver, Colorado 80202 and its registered office is located at 810-875 Hastings Street West, British Columbia V6B 1N2.

Organizational Structure

The following chart depicts the organization of the Company as at the date hereof, including its material subsidiaries:



Makó was incorporated under the laws of the State of Delaware on November 8, 2004 for the purpose of acquiring, exploring, and developing oil and gas properties. TXM was formed in 2004 to conduct oil and gas exploration and development business in the Republic of Hungary (“**Hungary**”), except for ownership of the Company’s gathering infrastructure/assets, and marketing of oil and gas produced from TXM’s licenses. TXM Marketing was formed in March, 2007 to hold the Company’s gathering infrastructure/assets in Hungary, and to market the oil and gas produced from TXM’s licenses. JVX was formed in 2005 to conduct the Company’s business in Romania. Falcon USA was formed in August, 2008 to hold the Company’s working interest in the Buckskin Mesa Project. Falcon Australia was formed in August, 2008 to hold the Company’s working interest in certain properties in the Beetaloo Basin located in Northern Territory, Commonwealth of Australia (“**Australia**”). FOG was incorporated in April 2008 to assist in the structure of the Company’s joint venture with ExxonMobil. For further details on these properties see “*Business Description*”.

All shares issued by subsidiaries are common voting shares.

GENERAL DEVELOPMENT OF THE BUSINESS OF FALCON

Development of the Business During 2009

On February 24, 2009, Falcon issued a press release announcing that it has elected not to exercise the Buckskin Option, but the Company will retain its 25% interest in five wells located within the Buckskin Mesa Project (the “**Five Wells**”).

On April 27, 2009, Falcon issued a press release announcing that it has entered into a non-binding letter of intent (the “**LOI**”) with PetroHunter which stipulates that the Company will acquire an additional undivided 25% working interest in Beetaloo Basin Project. Under the terms of the LOI, the principal

consideration being paid by the Company for this transaction is the forgiveness of the PetroHunter Loan. The LOI also stipulates that, on closing of this transaction, the Company will become operator of the Beetaloo Basin Project under the Beetaloo Basin Project joint operating agreement (the “**Beetaloo JOA**”), and that PetroHunter and certain of its affiliates and the Company will enter into an escrow agreement which will govern the release of all remaining Common Shares (as hereinafter defined) previously issued to PetroHunter. The closing of this transaction is subject to the execution of definitive agreements, the fulfillment of certain closing conditions, as well as the receipt of all required regulatory approvals. Closing of this transaction is expected to occur on or about May 25, 2009.

Development of the Business During 2008

On January 14, 2008, Rod Wallis was appointed new Chief Operating Officer of Falcon. Dr. James Edwards assumed the new position of Senior Vice President, Special Projects of Falcon.

On April 10, 2008, Falcon and TXM entered into the PDA with ExxonMobil under which Falcon and ExxonMobil became joint owners in a specified portion (the “**Contract Area**”) of Falcon’s long-term production license granted on May 21, 2007 by the Hungarian Mining Authority (the “**Production License**”) in the Makó Trough. Pursuant to a pre-existing agreement between ExxonMobil and MOL Oil and Gas Plc (“**MOL**”) and ExxonMobil’s rights under the PDA, ExxonMobil sold one-half of its interest in the Contract Area to MOL, effective April 10, 2008. ExxonMobil, MOL and TXM are also parties to a joint operating agreement (the “**JOA**”), dated April 10, 2008, which governs all operations of the Contract Area that are not expressly addressed in the PDA. ExxonMobil is the operator of the Contract Area under the JOA.

In May 2008, Falcon received the RPS Scotia Report.

Effective May 29, 2008, Mr. Igor Akhmerov resigned as a member of the Board (as hereinafter defined).

On August 25, 2008, the Company entered into a purchase and sale agreement with PetroHunter and one of its affiliates, which was amended by a first amendment to the Purchase and Sale Agreement between PetroHunter, Sweetpea, the Company and Falcon Australia dated October 31, 2008, (together, the “**Beetaloo PSA**”). Under the Beetaloo PSA, the Company to acquired an undivided 50% working interest in an aggregate 7,000,000 acre prospect in four exploration permits (the “**Permits**”) in the Beetaloo Basin, Northern Territory, Australia (the “**Beetaloo Basin Project**”). The Company closed this acquisition on September 30, 2008. The purchase price paid by the Company to PetroHunter was \$25,000,000, \$5,000,000 of which was paid in cash to PetroHunter as earnest money on August 25, 2008, and \$20,000,000 of which was paid on September 30, 2008 in equity securities automatically convertible into common shares in the capital of Falcon (the “**Common Shares**”) without payment of any additional consideration 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 Falcon’s closing share price on the date that a receipt was issued for the (final) prospectus to qualify the distribution of the Common Shares underlying the Special Warrants was below the closing share price on August 22, 2008, the Special Warrants had an adjustment mechanism which provides PetroHunter with price protection of up to 20%.

On August 25, 2008, the Company entered into the Buckskin PSA to acquire the Five Wells and the Buckskin Option, and to undertake a testing and completion program in respect of the Five Wells. The Company closed this acquisition on October 31, 2008.

At Falcon’s annual and special meeting on October 6, 2008, Janos Csak and Joachim Conrad were newly elected to Falcon’s board of directors (the “**Board**”) in addition to seven returning members: David E. Fisher, Daryl H. Gilbert, Prof. Ferenc Horvath, Marc Bruner, Stephen Schultz, Carl Stadelhofer and Dr. György Szabó. Jan Van Holsbeeck did not stand for re-election to the Board.

On December 8, 2008, the PDA was amended (the “**Amendment**”) to provide that: (a) the parties shall use reasonable efforts to agree on unitizing their respective interests in all or a portion of the Makó Trough; (b) if ExxonMobil elects to proceed to the Appraisal Work Program, a portion of the work commitment may be applied to drill one or more wells based on the optimum location from a Makó Trough-wide standpoint; and (c) if ExxonMobil elects to proceed to the Development Program, \$37.5 million (of the \$75 million payment to Falcon) may be applied to operations on a Makó Trough-wide standpoint.

On December 11, 2008, Falcon issued a press release announcing that it has entered into an amendment to the PetroHunter Loan that extended the maturity date from January 30, 2009 to April 30, 2009 and changed the pledge portion of the security associated with the PetroHunter Loan from a pledge of US\$7.5 million worth of the Special Warrants to a pledge of 14,500,000 Common Shares.

Development of the Business During 2007

On September 21, 2007, at Falcon’s annual and special general meeting, five new individuals were elected to Falcon’s Board. These five new directors were Igor Akhmerov, David E. Fisher, Daryl H. Gilbert, Jan Van Holsbeeck and Prof. Ferenc Horvath. The five new directors joined four returning directors Marc Bruner, Stephen Schultz, Carl Stadelhofer and Dr. György Szabó. Andrew Calerich did not stand for re-election.

In December 2007, Falcon 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 (final) 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 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 Project and Buckskin Mesa Project acquisitions.

Development of the Business During 2006

In March 2006, Falcon completed the sale of an aggregate 77,000,000 Common Shares, including the exercise of an over-allotment option, at a price of \$1.12 (CDN\$1.30) per share pursuant to a short form prospectus (the “**March Offering**”). Gross proceeds from the March Offering were \$86,276,190 (CDN\$100,100,000). The agents received a cash commission of 6% of the gross proceeds (\$5,176,541-CDN\$6,006,000) and warrants (collectively, the “**March Agents’ Warrants**”) to purchase 3% of the number of Common Shares sold under the March Offering, including the over-allotment option (2,310,000 Common Shares) at an exercise price of \$1.12 (CDN\$1.30) per share, for a period of 24 months from the date of the closing of the March Offering. An advisory fee of 1% of the gross proceeds, \$862,762, (CDN\$1,001,000) from the March Offering was paid in addition to the cash commission. The proceeds of the March Offering were used by the Company for exploration of the Hungary Project and the Company’s project in Romania (the “**Romania Project**”), and for general corporate and working capital purposes. As at January 1, 2007, 1,550,300 March Agents’ Warrants were outstanding and during

2007, 268,400 March Agents' Warrants were exercised resulting in the Company having received an additional \$311,395 (CDN\$348,920). In March, 2008, the 1,281,900 unexercised March Agents' Warrants expired.

In August 2006, Falcon received the Scotia Report.

Falcon completed a public offering on August 10, 2006 of an aggregate of 49,450,000 Common Shares, including the exercise of an over-allotment option, at a price of \$3.12 (CDN\$3.50) per share pursuant to a short form prospectus for an aggregate gross proceeds of \$154,490,508 (CDN\$173,075,000) (the "**August Offering**"). The agents received a cash commission of 5% of the gross proceeds, \$7,724,525, (CDN\$8,653,750) and warrants (collectively, the "**August Agents' Warrants**") to purchase 2.5% of the number of Common Shares sold under the August Offering, at an exercise price of \$3.12 (CDN\$3.50) per share, for a period of 24 months from the date of the closing of the August Offering. An advisory fee of 0.25% of the gross proceeds, \$385,740 (CDN\$432,688) from the August Offering was paid in addition to the cash commission. The proceeds of the August Offering were used by the Company for exploration of the Hungary Project and the Romania Project, and for general corporate and working capital purposes. As at January 1, 2007, 1,236,250 August Agents' Warrants were outstanding and during 2007 no August Agents' Warrants were exercised. In August 2008, the 1,236,250 unexercised August Agents' Warrants expired.

See also "*Business Description*".

BUSINESS DESCRIPTION

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. In 2009, the Company's geographical focus was broadened to also include Australia with the Beetaloo Basin Project acquisition.

Summary of Operations

The Company owns two exploration licenses: the Makó License and the Tisza License (together the "**Exploration Licenses**") and the Exploration Licenses together with the Production License, the "**Licenses**"). The "**Makó License**" is a hydrocarbon exploration license dated September 29, 1998 issued by the Szolnok Mining Authority under resolution no. 4958/1998 as extended by resolutions no. 1967/2003, no.16671/2005/1 and no. 3744/2/2007, in respect of the Makó-Árok area of central Hungary and valid until December 31, 2009. The "**Tisza License**" is a hydrocarbon exploration license dated June 11, 2001 issued by the Szolnok Mining Authority under resolution no. 449/2001 as extended by resolutions no. 3256/2005/1, no. 15768/2005/1 and no. 3742/2/2007 in respect of the Tisza area of central Hungary and valid until December 31, 2009. Effective upon issuance of the Production License on May 22, 2007, certain areas of the Exploration Licenses were converted to become part of the Production License and are no longer included within the Exploration Licenses.

Hungary

The Company 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 the PDA with ExxonMobil.
- Completion of the RPS Scotia Report, which is an update to Scotia Report.
- The repair of the Makó 6 well.

Strategic Partnership with ExxonMobil

As a result of the extensive technical data developed by the Company, on May 22, 2007 the Hungarian Mining Authority granted to the Company the Production License, which covers a significant part of the Makó Trough.

On April 10, 2008, the Company and TXM entered into the PDA with ExxonMobil pursuant to which the Company and ExxonMobil became joint owners of the Contract Area (as hereinafter defined). ExxonMobil operates the Contract Area. After the parties entered into the PDA and in accordance with Exxon's pre-existing agreement with MOL Oil and Gas Plc, a publicly traded Hungarian oil and gas company ("**MOL**") and ExxonMobil's rights under the PDA, ExxonMobil assigned half its interest to MOL.

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 provided for an initial consideration of \$25 million, which was paid to the Company, and for ExxonMobil and MOL to spend an aggregate of \$50 million to conduct an initial work program to test one or more of the Company's existing well bores or drill one or more new wells for such tests (the "**Initial Work Program**"). After the Initial Work Program is completed (expected to be approximately one year after commencement), Falcon and ExxonMobil will evaluate the results over a period which could last up to four months, at which time ExxonMobil has the right to proceed to the next phase (the "**Appraisal Work Program**"). If ExxonMobil elects to proceed forward, ExxonMobil and MOL will pay the Company an aggregate of an additional \$50 million and will be required to expend an aggregate of \$100 million on the Appraisal Work Program. If ExxonMobil elects not to proceed beyond the Initial Work Program, ExxonMobil will relinquish and reassign all of its rights and ownership in the Contract Area to the Company.

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

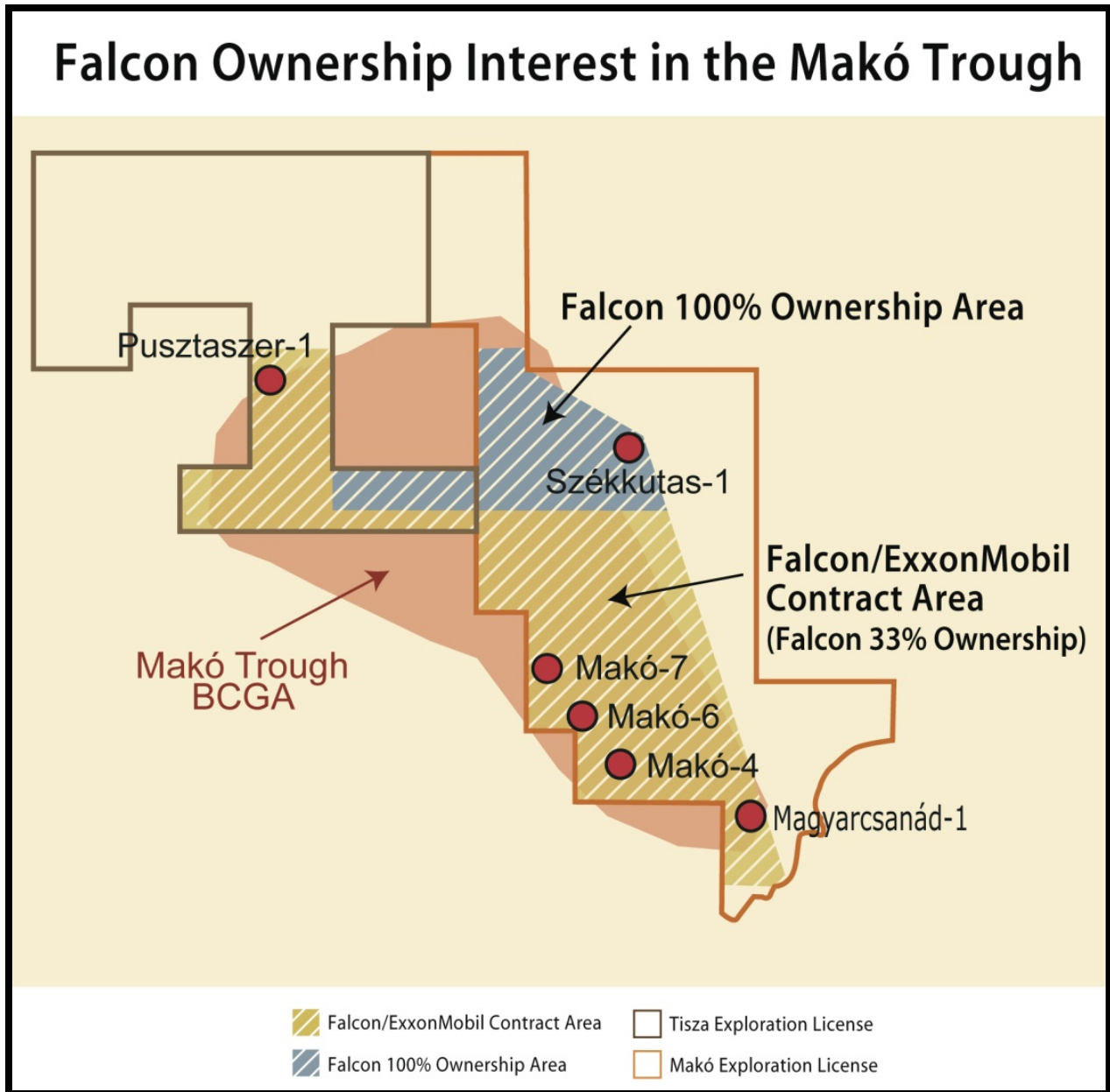
MOL has the right to retain and pay for its 33.5% working interest, including MOL's 50% share of the above-described payments to Falcon and work commitments, regardless of ExxonMobil's elections. Subject to the Company's pre-emptive right to acquire and assume ExxonMobil's participating interest upon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

The Company will incur no development costs within the Contract Area during the Initial Work Program or the Appraisal Work Program up to the amount stipulated in the PDA. Beginning with the Development Program, the Company, ExxonMobil and MOL will each receive revenues and be responsible for their proportionate share of expenses within the Contract Area (that is, 33% the Company, 33.5% ExxonMobil and 33.5% MOL), under the 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 remains 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 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.

Amendment to Agreement with ExxonMobil

On December 8, 2008, the Company entered into the Amendment with ExxonMobil and MOL.



Resource Estimates

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 Exploration Handbook (“**COGEH**”) 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 Company'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 of natural gas ("Tcf") and millions of barrels of 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 COGEH. 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 on SEDAR at www.sedar.com and Falcon's website at www.falconoilandgas.com.

Operational Highlights for 2008

In June 2008, the Makó 6 well intervention was completed. The intervention included removal of the 3 ½ inch tubing down to 2,250 meters and the cementing of the well down to about 2,818 meters. A drillable plug was set above the cement in the 5 ½ inch casing, thereby concluding the Makó 6 well repair.

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

Future Operations

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

Evaluation Period

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

ExxonMobil and MOL will continue to perform their own evaluation of the subsurface information, both geological and operational, as part of the Initial Work Program.

Piceance Basin, US

On August 25, 2008, the Company entered into the Buckskin PSA to acquire the Five Wells and the Buckskin Mesa Option, and to undertake a testing and completion program in respect of the Five Wells. The Company closed this acquisition on October 31, 2008.

Under the terms of the Buckskin PSA, the Company agreed to pay 100% of the first \$7,000,000 expended on testing and completion work in connection with the Five Wells. After performance of the testing and completion work, the Company had up to 60 days to review and analyze the results, at which time it could either retain its 25% interest in the Five Wells and acquire no greater interest, or it could exercise 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.

Three of the five wells were tested in 2008 and 2009, and failed to identify sufficiently economic reserves for the Company to proceed with the exercise of the Buckskin Mesa Option. On February 24, 2009, the Company notified PetroHunter that it would not exercise the Buckskin Mesa Option.

Beetaloo Basin, Northern Territory, Australia

On August 25, 2008, the Company entered into the Beetaloo PSA to acquire an undivided 50% working interest in the Permits. The Company closed this acquisition on September 30, 2008.

PetroHunter serves as operator of the Beetaloo Basin Project, although the Beetaloo Basin Project joint operating agreement (the “**Beetaloo JOA**”) provides for a joint operating committee and for substantial direct involvement by the Company’s managerial, technical and financial personnel in the identification, exploration and development of the Beetaloo Basin Project. The Company and PetroHunter are subject to certain drilling commitments on the Permits. These 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 in order to keep such Permits in good standing. The cost of such work related to these commitments will be borne by the Company and PetroHunter in accordance with their respective percentage interests in the Beetaloo Basin Project.

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

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 the Company’s 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 from the concession agreement 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.

Employees

As at December 31, 2008, Falcon, Makó and TXM together employed a total of 40 full-time employees and consultants, of which 13 individuals operated from the Company's headquarter offices in Denver, Colorado and 27 individuals were located in Hungary, supporting administrative operations in Budapest and field operations in Szeged. As at April 29, 2009, Falcon, Makó and TXM together employed a total of 42 full-time employees and consultants, of which 15 individuals operated from the Company's headquarter offices in Denver, Colorado and 27 individuals were located in Hungary, supporting administrative operations in Budapest and field operations in Szeged. In addition to these employees, the Company also retains consultants and other highly skilled professionals as needed for the Hungary Project and other aspects of its operations. None of the Company's employees are part of a collective bargaining unit. Management believes that its relations with its employees are good.

Special Skill and Knowledge

The Company's ability to complete drilling and exploration is dependent on the availability of well-trained, experienced crews to operate its field equipment and qualified management. The Company believes that its strategic arrangement with other oil and gas exploration companies aids the Company in ensuring that it has the special skill and knowledge available to assist the Company in the completions, testing and evaluation of the Company's resource in the Beetaloo Basin Project and the Contract Area.

Foreign Operations

As a percentage of its capitalized acquisition, exploration and development costs incurred in fiscal 2008, the Company focused approximately 16.8% of its fiscal 2008 resources on operations in Hungary, approximately 65.8% of its resources on the Beetaloo Basin Project, approximately 17.4% on the Buckskin Mesa Project and none of its fiscal 2008 resources on Canada and Romania.

Competitive Conditions

The oil and gas industry in Hungary, Australia and the US is, and will continue to be, competitive. Most contracts will be awarded on the basis of competitive bids, which results in price competition. The Company believes that ExxonMobil's financial, technical and operating expertise will provide the Company with a competitive advantage in the completions, testing and evaluation of the Company's resource in the Contract Area. The Company's joint venture with PetroHunter in the US and Australia has allowed it to branch operations into these two countries while limiting its financial exposure and gaining the benefit of PetroHunter's knowledge and established operational resources.

Dependence on Customers and Suppliers

The Company is not dependent upon a single or few customers or supplier for revenues or its operations.

Changes to Contracts

Prior to entering into the strategic joint venture with ExxonMobil, the Company's activity in Hungary for 2008 was focused on resource evaluation. With the completion of the strategic initiative and ExxonMobil becoming operator of the Contract Area, the Company will be re-evaluating its operational plans and evaluation studies. ExxonMobil and MOL are evaluating the existing wellbores and determining their recommendations for the Appraisal Work Program. Any material changes to the PDA and the JOA would have a significant impact on the Company's drilling and exploration activities.

The Company's election not to exercise its option on the Buckskin Mesa Project in early 2009 was based on well results and global economic conditions. As a result of this decision, the Company will focus resources on other projects, mainly the Beetaloo Basin Project and the Contract Area.

Environmental Protection and Policies

The Company is subject to various federal, state, territorial, provincial and local environmental laws and regulations enacted in most jurisdictions in which it operates, which primarily govern the manufacture, processing, importation, transportation, handlings and disposal of certain materials used in operations, as well as limits on emissions into the air and discharges into surface and sub-surface waters. The Company adheres to all such laws and regulations. The Company may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

Historically, environmental protection requirements have not had a significant financial or operational effect on the Company's capital expenditures, earnings or competitive position. Environmental requirements have not had a significant effect on such matters in fiscal 2008 nor are they currently anticipated in the future.

During 2008, all of the Company's operations were in compliance in all material respects with applicable corporate standards and environmental regulations and there were no material notices of violations, fines or convictions relating to environmental matters at any of the Company's operations.

The Company believes that it is in substantial compliance with all material current government controls and regulations at each of its properties.

See also "*General Development of the Business of Falcon*" and "*Risk Factors*".

Lending

Although the Company issued the PetroHunter Loan, the Company is not in the business of lending. Accordingly, the Company has not engaged in the preparation of formal lending or risk management policies or lending and investment restrictions. As at December 31, 2008 and the date hereof, the Company does not intend to lend to any additional amounts to PetroHunter or to lend to any third parties.

DISCLOSURE REGARDING OTHER OIL AND GAS ACTIVITIES

The 51-101F1 Report, the 51-101F2 Report and the 51-101F3 Report are incorporated by reference herein.

RISK FACTORS

The business of the Company is subject to many risks, including:

The Company is an early stage company, which makes it difficult to evaluate its business prospects.

Achieving the benefits of exploration and successful production of any existing properties as well as possible future acquisitions will depend in part on the Company's successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining any acquired businesses and operations with the Company's ongoing business or working with the existing resources of future partners. The integration of acquired businesses requires the dedication of substantial

management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities and from operational matters. The integration process with future targets could potentially result in the loss of key employees and the disruption of ongoing business, supplier, customer and employee relationships that may adversely affect the Company's ability to achieve the anticipated benefits of past and future acquisitions.

The Company cannot be certain that it will continue to meet all requirements to maintain the Licenses.

Hungarian Mining Law requires that the Company file annual plans of development ("**Plan**"). To the extent that the Company cannot fulfill the requirements, it might have to request extensions for filing a Plan or it might be at risk of losing rights under either of the Licenses. Alternatively, the Company might disagree with the government's interpretation of the legal requirements, in which case the Company might commence a legal proceeding, which could delay development of the Company's properties in Hungary. The properties are described more particularly in the section entitled "*Business Description*".

The Company cannot be certain that current expected expenditures and completion/testing programs will be realized.

There are assumptions, uncertainties, and risk that may cause the Company's allocated funds on a per well basis to change as a result of having to alter certain activities from those originally proposed or programmed to reduce and mitigate uncertainties and risks. These assumptions, uncertainties, and risks are inherent in the completion and testing of wells and can include but are not limited to: pipe failure, casing collapse, unusual or unexpected formation pressure, environmental hazards, and other operating or production risk intrinsic in oil and or gas activities. Any of the above may cause a delay in the Company's completion program and its ability to determine reserve potential.

The Company may have substantial capital requirements that, if not met, may hinder its growth and operations.

The Company's future growth depends on its ability to make large capital expenditures for the exploration and development of natural gas and oil properties. Future cash flows and the availability of financing will be subject to a number of variables, such as:

- the success of the Company's exploration and development program in Hungary and Australia;
- success in locating and producing new reserves; and
- prices of natural gas and oil.

Additional financing sources may be required in the future to fund developmental and exploratory drilling. Issuing equity securities to satisfy the Company's financial requirements could cause substantial dilution to its existing shareholders. Additional debt financing could lead to:

- a substantial portion of operating cash flow being dedicated to the payment of principal and interest;
- the Company being more vulnerable to competitive pressures and economic downturns; and
- restrictions on the Company's operations.

Financing might not be available in the future or the Company might not be able to obtain necessary financing on acceptable terms. If sufficient capital resources are not available, the Company might be

forced to curtail drilling and other activities or be forced to sell some assets on an untimely or unfavourable basis, which would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company might not be able to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them, which could cause the Company to incur losses.

Although the Company believes it has reviewed and evaluated the Hungary Project, the Romanian Project, the Beetaloo Basin Project and the Buckskin Mesa Project in a manner consistent with industry practices, such review and evaluation might not necessarily reveal all existing or potential problems. This is also true for any future acquisitions made by the Company. Inspections may not always be performed on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, a seller may be unwilling or unable to provide effective contractual protection against all or part of those problems, and the Company often assumes environmental and other risks and liabilities in connection with the acquired properties.

The Company might incur debt in order to fund its exploration and development activities, which would continue to reduce its financial flexibility and could have a material adverse effect on the Company's business, financial condition or results of operation.

If the Company incurs debt, its ability to meet its debt obligations and reduce its level of indebtedness depends on future performance. General economic conditions, oil and gas prices and financial, business and other factors will affect the Company's operations and future performance. Many of these factors are beyond the Company's control. No assurances can be made that the Company will be able to generate sufficient cash flow to pay the interest on its debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt. Factors that will affect its ability to raise cash through an offering of Common Shares or other types of equity securities, or a refinancing of debt include financial market conditions, the value of its assets and performance at the time the Company needs capital. No assurances can be made that the Company will have sufficient funds to make such payments. If the Company does not have sufficient funds and is otherwise unable to negotiate renewals of its borrowings or arrange new financing, it might be required to sell significant assets. Any such sale could have a material adverse effect on the Company's business, financial condition and results of operations.

Shortages of rigs, equipment, supplies and personnel could delay or otherwise adversely affect the Company's cost of operations or its ability to operate according to its business plans.

If drilling activities increase in Hungary, Central Europe, the US or Australia, generally, shortages of drilling and completion rigs, field equipment and qualified personnel could develop. From time to time, these costs have sharply increased in various areas around the world and could do so again. The demand for and wage rates of qualified drilling rig crews generally rise in response to the increased number of active rigs in service and could increase sharply in the event of a shortage. Shortages of drilling and completion rigs, field equipment or qualified personnel could delay, restrict or curtail the Company's exploration and development operations, which may materially adversely affect the Company's business, financial condition and results of operations.

Resource estimates depend on many assumptions that may be inconclusive, subject to varying interpretations, or inaccurate.

In May 2008, Falcon received the new, updated RPS Scotia Report disclosing an updated resource estimate of the Makó Trough. 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, Inc. The RPS Scotia Report, previously filed on SEDAR at www.sedar.com, contains estimates of resources within the Company's Production License and is limited to an estimate of the possible range of volume that theoretically may be produced and does not include any economic modelling or valuation of the resources. The RPS Scotia Report focuses on basin centred gas accumulation ("BCGA") unconventional resources, and does not address any oil or gas resources that may occur in associated conventional or unconventional reservoirs outside of the BCGA. Both the RPS Scotia Report and the Scotia Report describe probabilistic distributions of the potentially recoverable portion of "Contingent Resources" as defined by the COGEH and do not represent estimates of reserves. The resource estimates have been conducted using the definitions specified by the COGEH. The resources discussed in the RPS Scotia Report and the Scotia Report fall under the "Discovered Resources" classification. The values refer to the probabilistically estimated recoverable fraction of "Contingent Resources" within that classification. The economic nature of these resources has not yet been assessed due to the early stage of data gathering for the 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 RPS Scotia Report.

Although the Company believes that the RPS Scotia Report and the Scotia Report were prepared in accordance with industry standards, the Company cannot assure that the estimated costs are accurate, that the Company will be able to raise the necessary capital, that the development will occur as scheduled, or that the actual results will be as estimated.

Actual natural gas and oil prices, future production, revenues, operating expenses, taxes, development expenditures and quantities of recoverable oil and natural gas resources will most likely vary from those estimated by the Company. Any significant variance could materially adversely affect the estimated quantities and present value of future net revenues set forth in the Annual Information Form and the other documents incorporated by reference herein. A reduction in natural gas and oil prices, for example, would reduce the value of resources and reduce the amount of natural gas and oil that could be economically produced, thereby reducing the quantity of resources. The Company might adjust estimates of resources to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond the Company's control.

The recovery of undeveloped resources requires significant capital expenditures and successful drilling operations. The data contained in the RPS Scotia Report and the Scotia Report assumes that the Company will make significant capital expenditures to develop its resources. Although the Company has prepared estimates of its natural gas and oil resources and the costs associated with these resources in accordance with industry standards, no assurances can be given that the estimated costs are accurate, that development will occur as scheduled or that the actual results will be as estimated. The Company might not be able to raise the capital it needs to develop these resources.

The Company cannot be certain that current expected expenditures and completion/testing programs will be realized.

The Company believes that the costs used to prepare internal budgets are reasonable, however, there are assumptions, uncertainties, and risk that may cause actual allocated funds on a per well basis to change as a result of having to alter certain activities from those originally proposed or programmed to reduce and mitigate those uncertainties and risks. These assumptions, uncertainties, and risks are inherent in the completion and testing of wells and can include but are not limited to pipe failure, casing collapse, unusual or unexpected formation pressure, environmental hazards, and other operating or production risk intrinsic in oil and or gas activities. Any of the above may cause a delay in the Company's programs and its ability to determine reserve potential.

The value of the Common Shares might be affected by matters not related to the Company's own operating performance for reasons that include the following:

- general economic conditions in Canada, the US, Hungary, Romania, Australia and globally;
- industry conditions, including fluctuations in the price of oil and natural gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and natural gas operations;
- geological, technical, drilling and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut-in or delayed;
- failure to obtain 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, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities;
- Hungarian and worldwide supplies and prices of and demand for natural gas and oil;
- political conditions and developments in Hungary, Canada, the US, Romania, Australia and globally;
- political conditions in natural gas and oil producing regions;
- revenue and operating results failing to meet expectations in any particular period;
- investor perception of the oil and gas industry;
- limited trading volume of the Common Shares;
- change in environmental and other governmental regulations;
- announcements relating to the Company's business or the business of its competitors;
- the Company's liquidity; and
- the Company's ability to raise additional funds.

In the past, companies that have experienced volatility in their value have been the subject of securities class action litigation. The Company might become involved in securities class action litigation in the future. Such litigation often results in substantial costs and diversion of management's attention and resources and could have a material adverse effect on the Company's business, financial condition and results of operation.

The Company might not be able to obtain necessary approvals from one or more Hungarian or Australian government agencies, surface owners, or other third parties, for one or more of the following:

- surface use for seismic surveys;
- surface use for drilling activities;
- surface use for gathering lines, pipelines, or surface equipment;
- commencing one or more wells (that is, drilling permits); or
- sales of the product.

There are numerous permits, approvals and agreements with third parties required in order to enable the Company to proceed with its development plans and otherwise accomplish its objectives.

Hungary

Hungarian government agencies have discretion in interpreting various laws, regulations, and policies governing operations under the Licenses. Further, the Company must enter into agreements with private surface owners to obtain access and agreements for the location of surface facilities. In addition, because Hungary enacted a new set of mining laws (which also govern oil and gas operations) in 1993, which have since been amended, there is only a relatively short history of the government agencies' handling and interpreting those laws, including the various regulations and policies relating to those laws. This short history does not provide extensive precedents or the level of certainty that allows the Company to predict whether such agencies will act favourably toward the Company.

Neither the Licenses nor Hungarian mining laws grant reasonable use of the surface across the geographical area covered by the Licenses. Instead, the licensee must obtain rights-of-way from surface owners, including private landowners, for access and other purposes. The land owner must ensure that those engaging in mining operations make observations and measurements, lay cables, put up adequate signage, and take any other actions necessary. If the land owner and miner cannot establish operations that meet their mutual agreement, a prospective miner may request and pay for an easement from the Hungarian government. Similar to requirements in the US, the licensee must obtain a drilling permit from the government for each well. The Hungarian government has discretion to interpret various requirements for the issuance of drilling permits, and there is no assurance that the Company will be able to meet all such requirements. Any inability of the Company to meet any such requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

Australia

In Australia, ownership of onshore petroleum resources are reserved to and are owned by the Crown in right of the State or Territory in which they occur. Offshore petroleum (beyond a 3 mile limit from the coastline) is governed by and owned by the Crown in right of Australia. Each Australian State and Territory operates under its own legislation. The Crown issues licences to explore for and exploit hydrocarbons. Usually these titles are called exploration permits and production titles.

The exploration permits in which Falcon has an interest are located in the Beetaloo Basin in the Northern Territory, Australia. Onshore exploration and production of petroleum in the Northern Territory is regulated by the *Petroleum Act 1984* (NT) ("**Petroleum Act**"). Under the Petroleum Act, an exploration permit remains in force for up to five years and is given by reference to the number of graticular blocks (a graticular block is usually one degree of latitude by one degree of longitude). The holder of an exploration permit may apply for a renewal of the permit for a further period of five years in respect of no more than half of the existing blocks of the exploration permit. Additionally, the exploration permit will not be renewed more than twice.

Australian government agencies have discretion in interpreting various laws, regulations and policies, which govern operations in the Beetaloo Basin. Actions by Australian government agencies may affect the Company's operations including obtaining necessary approvals, land access, sovereign risk, regulatory risk, taxation and royalties which may be payable on the proceeds of the sale of any successful exploration. Further, the approval of contractual arrangements in relation to exploration permits as well as the renewal of exploration permits are also matters of governmental discretion and no guarantee can be given in this regard.

In Australia, Aboriginal native title to land ("**Native Title**") has survived the Crown's acquisition of sovereignty. The *Native Title Act 1993* (Cth) and the complementary state Native Title legislation, regulates the recognition and protection of Native Title in Australia and, amongst other things, sets out the procedures to be followed in relation to certain "future acts" including the grant of petroleum tenements.

The Company is required to obtain clearances, consents and approvals in relation to Native Title in connection with the exploration permits in the Beetaloo Basin. Access may be restricted or subject to suitable arrangements being agreed and entered into (for example, compensation and access arrangements) in respect of areas the subject of Native Title. If the requisite approvals and consents are not obtained in respect of the exploration permits within the Beetaloo Basin, there may be a material adverse effect on the Company's business and operations.

Drilling for and producing natural gas and oil are high-risk activities with many uncertainties that could adversely affect the Company's business, financial condition or results of operations.

The Company's future success depends primarily on the success of its exploration, development and production activities in the Hungary Project and the Beetaloo Basin Project. These activities are subject to numerous risks beyond the Company's control, including the risk that it will not find any commercially productive natural gas or oil reservoirs. The Company's decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. The cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or prevent drilling operations, including:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- pipeline and processing interruptions or unavailability;
- title problems;
- adverse weather conditions;
- lack of market demand for natural gas and oil;
- delays imposed by or resulting from compliance with environmental and other regulatory requirements;
- shortage of or delays in the availability of drilling rigs and the delivery of equipment; and
- reductions in natural gas and oil prices.

The Company's future drilling activities might not be successful, and drilling success rate overall or within a particular area could decline. The Company could incur losses by drilling unproductive wells. Although the Company has identified numerous potential drilling locations, no assurances can be made that the Company will ever drill them or will produce natural gas or oil from them or from any other potential drilling locations. Shut-in wells, curtailed production and other production interruptions may materially adversely affect the Company's business, financial condition and results of operations.

Competition in the oil and gas industry is intense, and many of the Company's competitors have greater financial, technological and other resources than the Company does, which may adversely affect its ability to compete.

The Company operates in the highly competitive areas of oil and gas exploration, development and acquisition with a substantial number of other companies, including US-based and foreign companies doing business in Hungary and Australia. The Company faces intense competition from independent, technology-driven companies as well as from both major and other independent oil and gas companies in each of the following areas:

- seeking oil and gas exploration licenses and production licenses in Hungary and Australia;
- acquiring desirable producing properties or new leases for future exploration;
- marketing natural gas and oil production;
- integrating new technologies; and
- acquiring the equipment and expertise necessary to develop and operate properties.

Many of the Company's competitors have substantially greater financial, managerial, technological and other resources. These companies might be able to pay more for exploratory prospects, and productive oil and gas properties and prospects than the Company's financial or human resources permit. To the extent competitors are able to pay more for properties than the Company is paying, it will be at a competitive disadvantage. Further, many competitors may enjoy technological advantages and may be able to implement new technologies more rapidly. The Company's ability to explore for natural gas and oil prospects and to acquire additional properties in the future will depend upon its ability to successfully conduct operations, implement advanced technologies, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

Political instability or fundamental changes in the leadership or in the structure of the governments in the jurisdictions in which the Company operates could have a material negative impact on the Company.

The Company's interests may be affected by political and economic upheavals. Although the Company currently operates in jurisdictions that welcome foreign investment and are generally stable, there is no assurance that the current economic and political situation in these jurisdictions will not change drastically in coming years. Local, regional and world events could cause the jurisdictions in which the Company operates to change the mining laws, tax laws, foreign investment laws, or to revise their policies in a manner that renders the Company's current and future projects non-economic. Further, there is always the possibility of the governments in the jurisdictions in which the Company operates deciding to nationalize the oil and gas industry, or imposing such restrictions and penalties on foreign-owned entities that the Company's current and future projects would become uneconomic, or the Company would be prevented from selling its assets or operating its business. The occurrence of any such fundamental change could have a materially adverse effect on the Company's business, financial condition and results of operations.

Market conditions or operation impediments may hinder the Company's access to natural gas and oil markets or delay its production.

The marketability of the Company's production depends in part upon the availability, proximity and capacity of pipelines, natural gas gathering systems and processing facilities. This dependence is heightened where this infrastructure is less developed. If drilling results are positive in certain areas of the Licenses or any of the Company's other properties, a new gathering system would need to be built to handle the potential volume of gas produced. The Company might be required to shut-in wells, at least temporarily, for lack of a market or because of the inadequacy or unavailability of transportation facilities. If that were to occur, the Company would be unable to realize revenue from those wells until arrangements were made to deliver production to market.

The Company's ability to produce and market natural gas and oil is affected and also may be harmed by:

- the lack of pipeline transmission facilities or carrying capacity;
- the proximity and capacity of processing equipment;
- the availability of open access transportation infrastructure;

- government regulation of natural gas and oil production including environmental protection, royalties, allowable production, pricing, importing and exporting of oil and natural gas;
- government transportation, tax and energy policies;
- changes in supply and demand; and
- general economic conditions.

Any change in such factors could materially adversely affect the Company's business, financial condition and results of operations.

A substantial or extended decline in natural oil and gas prices may adversely affect the Company's ability to meet its capital expenditure obligations and financial commitments.

The Company's revenues, operating results and future rate of growth are substantially dependent upon the prevailing prices of, and demand for, natural gas and oil. Declines in the prices of, or demand for, natural gas and oil may adversely affect the Company's business, financial condition and results of operations. Lower natural gas and oil prices may also reduce the amount of natural gas and oil that the Company can produce economically. Historically, natural gas and oil prices and markets have been volatile and they are likely to continue to be volatile in the future. A decrease in natural gas or oil prices will not only reduce revenues and profits, but will also reduce the quantities of reserves that are commercially recoverable and may result in charges to earnings for impairment of the value of these assets. If natural gas or oil prices decline significantly for extended periods of time in the future, the Company might not be able to generate enough cash flow from operations to meet its obligations and make planned capital expenditures. Natural gas and oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, natural gas and oil, market uncertainty and a variety of additional factors that are beyond the Company's control. Among the factors that could cause this fluctuation are:

- change in global supply and demand for natural gas and oil;
- levels of production and other activities of the Organization of Petroleum Exporting Countries, and other natural gas and oil producing nations;
- weather conditions;
- the availability of transportation infrastructure;
- market expectations about future prices;
- the level of global natural gas and oil exploration, production activity and inventories;
- the overall level of energy demand;
- the effect of worldwide environmental and/or energy conservation measures;
- currency exchange rates;
- government regulations and taxes;
- the overall economic environment;
- political conditions, including embargoes, in or affecting other oil producing activity; and
- the price and availability of alternative fuels.

Lower natural gas and oil prices may not only decrease the Company's revenues on a per unit basis, but also may reduce the amount of natural gas and oil that it can produce economically. A substantial or extended decline in oil or natural gas prices may materially adversely affect the Company's business, financial condition, borrowing ability and results of operations.

Falcon may enter into hedging agreements but may not be able to hedge against all such risks.

From time to time Falcon may enter into agreements to receive fixed or a range of prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if

commodity prices increase beyond the levels set in such agreements, Falcon will not benefit from such increases. Similarly, from time to time Falcon may enter into agreements to fix the exchange rate of certain currencies to US dollars in order to offset the risk of revenue losses if the other currencies increase in value compared to the US dollar; however, if other currencies decline in value compared to the US dollar, Falcon will not benefit from the fluctuating exchange rate. In addition to the potential of experiencing an opportunity cost, other potential costs or losses associated with hedging include the risk that the other party to a hedge transaction does not perform its obligations under a hedge agreement, the hedge is imperfect or our hedging policies and procedures are not followed.

The Company is subject to complex laws and regulations, including environmental regulations, which can have a material adverse effect on the cost, manner or feasibility of doing business.

Exploration for and exploitation, production and sale of oil and gas in Hungary and Australia are subject to extensive national and local laws and regulations, including complex tax laws and environmental laws and regulations, and requires various permits and approvals from various governmental agencies. If these permits are not issued or unfavourable restrictions or conditions are imposed on the Company's drilling activities, it might not be able to conduct its operations as planned. Alternatively, failure to comply with these laws and regulations, including the requirements of any permits, might result in the suspension or termination of operations and subject the Company to penalties. Compliance costs may be significant. Further, these laws and regulations could change in ways that substantially increase the Company's costs and associated liabilities. The Company cannot be certain that existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws or regulations will not harm its business, results of operations and financial condition.

The loss of Falcon's chief executive officer or other of the Company's key management, technical personnel and Directors or its inability to attract and retain experienced technical personnel could adversely affect the Company's ability to operate.

Falcon depends to a large extent on the efforts and continued employment of Marc A. Bruner, Chief Executive Officer and the other members of the Company's management team and Board including Mr. Daryl Gilbert. At this time, the loss of the services of Mr. Bruner or others could adversely affect the Company's business operations.

The success of the Hungary Project and the Beetaloo Basin Project depend, in part, on the Company's ability to attract and retain experienced petroleum engineers, geologists and other key personnel. From time to time, competition for experienced engineers and geologists is intense. If the Company cannot retain these personnel or attract additional experienced personnel, its ability to compete in the geographic regions in which the Company conducts operations could be harmed.

The Company does not insure against all potential operating risks. It might incur substantial losses and be subject to substantial liability claims of its natural gas and oil operations.

The Company does not insure against all risks. It maintains insurance, to the extent available in Hungary, against various losses and liabilities arising from operations in accordance with customary industry practices and in amounts that management believes to be prudent. Losses and liabilities arising from uninsured and underinsured events or in amounts in excess of existing insurance coverage could have a material adverse effect on the Company's business, financial condition or results of operations. The Company's natural gas and oil exploration and production activities will be subject to hazards and risks associated with drilling for, producing and transporting natural gas and oil, and any of these risks can cause substantial losses resulting from:

- environmental hazards, such as uncontrollable flows of natural gas, oil, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling, and service tools and casing collapse;
- fires and explosions;
- personal injuries and death;
- regulatory investigations and penalties; and
- natural disasters.

Any of these risks could have a material adverse effect on the Company's ability to conduct operations or result in substantial losses. The Company might elect not to obtain insurance if it believes that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could have material adverse effect on the Company's business, financial condition and results of operations.

To the extent that the Company establishes natural gas and oil reserves, it will be required to replace, maintain or expand its natural gas and oil reserves in order to prevent its reserves and production from declining, which could adversely affect cash flows and income.

In general, production from natural gas and oil properties declines over time as reserves are depleted, with the rate of decline depending on reservoir characteristics. If the Company establishes reserves, of which there is no assurance, and is not successful in its subsequent exploration and development activities or in subsequently acquiring properties containing proved reserves, its proved reserves will decline as reserves are produced. The Company's future natural gas and oil production is highly dependent upon its ability to economically find, develop or acquire reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing production volume prices for natural gas and oil or an increase in finding and development costs, and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand its asset base of natural gas and oil reserves would be impaired. Even with sufficient available capital, its future exploration and development activities may not result in additional proved reserves, and the Company might not be able to drill productive wells at acceptable costs.

Trading in the Common Shares may be suspended and/or the Common Shares may be excluded from trading on a stock exchange on which it is listed.

The TSX Venture Exchange (the "TSXV") has the right to suspend the trading of a given security if the issuer of the security fails to comply with the regulations of that exchange (such as for example to obey the disclosure rules), or if suspension is necessary to protect the interest of market participants, or if the orderly functioning of the market is temporarily endangered. There can be no assurance that trading in the Common Shares will not be suspended. A suspension of trading could adversely affect the trading price of the Common Shares.

Falcon is incorporated in British Columbia, Canada.

Falcon is a company incorporated in the province of British Columbia, Canada and as such, its corporate structure, the rights and obligations of shareholders and its corporate bodies may be different from those of the home countries of international investors. Furthermore, non-Canadian residents may find it more

difficult and costly to exercise shareholder rights. International investors may also find it costly and difficult to effect service of process and enforce their civil liabilities against the Company or some of its directors, controlling persons and officers.

Partners in joint venture operations may fail to perform their contractual obligations.

Some of the Company's properties are held in joint venture relationships in which other parties act as operators of the area. There is a risk that the Company may have disputes with these parties, including disputes regarding the quality and/or timelines of work performed by these parties. A failure by one or more of the Company's partners to satisfactorily provide on a timely basis the agreed-upon supplies or perform the agreed-upon services may materially and adversely impact the Company's financial position. In addition, the Company will be exposed to the general risks associated with the businesses, operations and financial condition of its partners including, among other things, the risks of bankruptcy, insolvency, management changes, adverse change of control and natural disasters.

DIVIDENDS

Falcon has not declared any dividends on the Common Shares. The Board currently anticipates retaining earnings to finance the growth and development of the business of Falcon. Any future determination to pay dividends will be at the discretion of the Board and will depend upon Falcon's financial condition, results of operations, capital requirements and such other factors as the Board deems relevant.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

Falcon is authorized to issue an unlimited number of Common Shares, of which as at December 31, 2008 and April 29, 2009 there were 595,799,301 issued and outstanding Common Shares. Holders of Common Shares are entitled to receive notice of any meetings of shareholders of Falcon, and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a *pro rata* basis such dividends, if any, as and when declared by the Board at its discretion from funds legally available therefore, and upon the liquidation, dissolution or winding up of Falcon are entitled to receive on a *pro rata* basis the net assets of Falcon after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a *pro rata* basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are listed and posted for trading on the TSXV, where they trade under the stock symbol "FO". The following table sets forth, for the periods indicated, the reported high and low prices (each in Canadian dollars) and the aggregate trading volume of the Common Shares on the TSXV⁽¹⁾:

Period	High	Low	Trading Volume
2009			
April ⁽²⁾	\$0.48	\$0.29	14,135,919
March	\$0.37	\$0.27	12,036,201
February	\$0.36	\$0.24	11,254,886
January	\$0.50	\$0.28	13,543,556
2008			
December	\$0.30	\$0.20	16,906,180
November	\$0.34	\$0.17	20,800,089
October	\$0.58	\$0.31	33,619,428
September	\$0.89	\$0.52	24,049,834
August	\$0.95	\$0.77	8,888,794
July	\$1.14	\$0.84	24,699,488
June	\$1.25	\$1.06	66,198,666
May	\$1.16	\$0.87	51,184,409
April	\$1.35	\$0.50	180,752,789
March	\$0.77	\$0.41	75,194,886
February	\$0.57	\$0.38	42,208,306
January	\$0.39	\$0.28	20,501,603

Notes:

- (1) Data obtained from www.tsx.com.
(2) Up to and including the trading of the Common Shares on the close of business on Wednesday, April 29, 2009.

Prior Sales

Warrants

In connection with the December Offering, the December Underwriters' Warrants included the issue of an aggregate of 6,000,000 non-transferable compensation warrants, exercisable for a period of two years following the close of the December Offering at an exercise price of \$0.39 (CDN\$0.40) per Common Share. As of the date hereof, the Company has received approximately \$674,800 (CDN\$684,500) from the exercise of 1,711,250 of the December Underwriters' Warrants.

The Company issued Special Warrants to PetroHunter on September 30, 2008 as partial consideration for the Beetaloo Basin Transaction. The number of Special Warrants issued equalled the quotient resulting from dividing US\$20,000,000 (at an exchange rate of \$1.00 = approximately CDN\$1.04) by the deemed exercise price of the Special Warrants. The deemed exercise price was equal to \$0.69 (CDN\$0.90) less a factor of up to 20% if the price of the Common Shares on the TSXV at the close of trading on the day immediately prior to the receipt for a (final) prospectus having been received by the Company from one or more of the securities regulatory authorities in Canada, was less than CDN\$0.90 by a factor of up to 20%.

The \$20,000,000 of Special Warrants were exercised for 28,888,888 Common Shares in December 2008.

Stock Options

During the year ended December 31, 2008, the Company granted incentive stock options pursuant to its stock option plan which entitles the holders to purchase up to 13,610,000 Common Shares as follows:

Number of Options Issued	Date of Issuance	Exercise Price (CDN)	Expiry Date
1,000,000	May 6, 2008	\$1.00	May 6, 2013
12,610,000	June 5, 2008	\$1.18	June 5, 2013

Escrowed Securities and Securities Subject to Contractual Restriction on Transfer

The following table sets out, to the Company's knowledge, the type and number of securities of each class of the Company held in escrow or that are subject to a contractual restriction on transfer, and the percentage that the number represents of the outstanding securities of the class:

Escrowed Securities		
Designation of Class	Number of Securities held in Escrow or that are subject to a contractual restriction on transfer as of December 31, 2008 ⁽¹⁾	Percentage of Class as of December 31, 2008 ⁽²⁾
Common Shares	14,500,000	2.4%

Notes:

- (1) PetroHunter has pledged 14,500,000 Common Shares to the Company as security for the PetroHunter Loan. The Loan matures April 30, 2009.
- (2) As at December 31, 2008, there were 595,799,301 issued and outstanding Common Shares.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The following table sets out Falcon's directors and executive officers as of December 31, 2008, provides the person's name, location of residence, position(s) held with Falcon, principal occupation during the last five years and if a director, the date on which the person became a director. Each of Falcon's directors will hold office until the close of the next annual meeting of shareholders or until such director's successor is duly elected or appointed. Falcon understands that all of Falcon's current directors and executive officers as a group beneficially own, control or direct, directly or indirectly, over 13,000,000 Common Shares representing, as at April 29, 2009, approximately 2.2% of Falcon's issued and outstanding Common Shares.

Name and Residence	Position in the Company	Date First Elected	Principal Occupation During Last 5 Years
David Brody Greenwood Village, Colorado, US	Corporate Secretary and General Counsel	n/a	Partner, Patton Boggs LLP and Corporate Secretary and General Counsel of each the Company and PetroHunter
Marc A. Bruner ⁽²⁾⁽³⁾ Blauenweg, Metzerlen, Switzerland	President, Chief Executive Officer of the Company and Chairman of the Board	April 1, 2005	Managing Director of MAB Companies; President, Chief Executive Officer and Chairman of the Board

Name and Residence	Position in the Company	Date First Elected	Principal Occupation During Last 5 Years
Joachim Conrad ⁽²⁾ Cham, Switzerland	Director	October 6, 2008	Member of the group executive board of Elektrizitäts-Gesellschaft Laufenburg AG
Janos Csák ⁽¹⁾ Budapest, Hungary	Director	October 6, 2008	Independent Businessman
David E. Fisher ⁽¹⁾⁽²⁾⁽³⁾ Bridel, Luxembourg	Director	September 21, 2007	Director of Terra (as defined below) and Director and Chairman of Real Associates Limited
Daryl H. Gilbert ⁽²⁾⁽⁴⁾ Calgary, Alberta, Canada	Director	September 21, 2007	Independent Businessman
Prof. Ferenc Horváth ⁽²⁾⁽³⁾ Törökbálint, Hungary	Director	September 21, 2007	Director of the Institute of Geography and Earth Science, Eötvös University, Budapest and a professor and head of the Department of Geophysics
Stephen Schultz ⁽¹⁾⁽²⁾⁽³⁾ Jackson, Wyoming US	Director	June 19, 2006	Executive Director for the Jackson Hole Center for the Arts, Director of Corporate Communications and Investor Relations for Acusphere, Inc., and Director of Corporate Governance Programs for Shareholder.com
Carl Stadelhofer ⁽¹⁾⁽⁴⁾ Freudenbergrasse, Zurich, Switzerland	Director	June 19, 2006	Partner, Klein Attorneys-at-law
Dr. György Szabó ⁽³⁾⁽⁴⁾ Budapest, Hungary	Director	April 24, 2006	Consultant and Mining Bureau Registered Technical Responsible Person for TXM
Roderick J. Wallis Boulder, Colorado, US	Chief Operating Officer	n/a	Senior Geologist of the Company, Senior Geologist of PetroHunter Energy Corporation, and Vice President and Chief Geologist at Gustavson Associates, LLC
Evan L. Wasoff Nederland, Colorado US	Chief Financial Officer	n/a	Principal of Wheeler Wasoff, P.C. and Chief Financial Officer of the Company

Notes:

- (1) Member of the audit committee.
- (2) Member of the compensation committee.
- (3) Member of the nomination committee.
- (4) Member of the reserves committee.

David Brody

Mr. Brody has served as the Corporate Secretary and General Counsel of Falcon since November 17, 2006. Since June 1999 to the present, Mr. Brody has been a partner at Patton Boggs LLP, an international law firm concentrating in global business and trade, during which time Mr. Brody's practice has focused on representing oil and gas producers, pipeline companies, developers and service companies in transactions and litigation involving oil and gas matters domestically and internationally. Prior to joining

Patton Boggs LLP, he worked for Amoco Corporation, where he specialized in major acquisitions and divestments of oil and gas producing properties. Mr. Brody is a member of the Association of International Petroleum Negotiators and several other industry organizations. He graduated with a B.S. from the University of Colorado in 1971 and graduated with a J.D. from American University Washington College of Law in 1973. Mr. Brody has represented the Company since April 2005 and its wholly-owned subsidiary, Makó, since its formation in 2004. Mr. Brody is also Corporate Secretary and General Counsel of PetroHunter.

Marc A. Bruner

Mr. Bruner has served as President, Chief Executive Officer and Chairman of Falcon since April 1, 2005. Mr. Bruner has been involved in the founding and developing unconventional energy companies. Mr. Bruner was a co-founder and is the current Chairman of Gasco Energy, Inc. (AMEX: GSX) (“**Gasco**”). Previously, Mr. Bruner was a founder and was the Chairman of Ultra Petroleum Corporation (AMEX: UPL). Mr. Bruner also co-founded Pennaco Energy, Inc., which was acquired by Marathon Oil (NYSE: MRO) in 2001. Along with his other extensive business interests, Mr. Bruner is also the Managing Director of the MAB Companies, an umbrella organization that is launching a global strategy for the exploration and development of unconventional oil and gas resources.

Joachim Conrad

Mr. Conrad has been a member of the Board since October 6, 2008. He is currently a member of the group executive board of Elektrizitäts-Gesellschaft Laufenburg AG (“**EGL**”), a European energy trading company with its own energy producing assets listed on the Swiss stock exchange (SWX: EGL), where he is responsible for EGL’s gas division. Mr. Conrad is also a member of the supervisory board of certain of EGL’s foreign subsidiaries. Prior to serving on EGL’s group executive board, Mr. Conrad was Head of Natural Gas (EGL Group Gas activities). Prior to joining EGL, from 2001 to 2003, Mr. Conrad was head of trading at WINGAS GmbH. Mr. Conrad obtained the rank of First Lieutenant in the German Air Force prior to obtaining a Diplomkaufmann focus: Economics and Information Technology, Graduation in Artificial Intelligence, from Georg-August Universität in 1992.

Janos Csák

Mr. Csák has been a member of the Board since October 6, 2008. He is currently a corporate finance and management consultant, and private equity investor. From 1999 to 2000, Mr. Csák was Chairman of the Board of MOL (Hungary and Eurasia) where he helped MOL reshape the landscape in the Hungarian oil and gas business by managing a comprehensive operations and management restructuring, and industry consolidation program. From 2001 to 2003, Mr. Csák was a Group Executive Board Member at CreditAnstalt Investment Bank, today Unicredit (CEE). From 2004 to 2007, Mr. Csák was an Advisory Board Member at Celerant Consulting, and from 2006 to 2007 he was a Non-executive Board Member at Semmelweis Medical University (Hungary). Currently, Mr. Csák manages private investments in certain enterprises and is a non-executive board member of Budapest Bank Nyrt. (GE Bank Hungary). Mr. Csák graduated from Corvinus University of Economics (Hungary) and received an MA in Finance and Sociology in 1987. Mr. Csák has also completed executive level management programs at the University of Michigan Business School, Harvard University Graduate School of Business and Insead (France, Manfred Kets de Vries).

David E. Fisher

Mr. Fisher currently serves as a director of Falcon, and has since 1993 been a director of Terra Industries Inc. (NYSE: TRA) (“**Terra**”), an international producer of nitrogen products. He is also the chairman of the audit committee and member of the compensation committee of Terra. Mr. Fisher has been the

Chairman of Real Associates Limited, a private company investing in commercial and industrial property in Eastern Europe since 2005. Mr. Fisher has over 25 years experience in the natural resources and extractive industries and served as a Finance Director Minorco SA, an international mining company, between 1992 and 1999. He has a physics degree from London University and is a Fellow of the Chartered Institute of Certified Accountants in the UK.

Daryl H. Gilbert

Mr. Gilbert is currently an independent businessman in Calgary, Alberta. He serves as a director of several energy related public entities such as AltaGas Income Trust (since May 2000), Penn West Energy Trust (since January 2008), Crocotta Energy Inc. (since November 2006), Kereco Energy Ltd. (since January 2005), MGM Energy Corp. (since January 2007), Nextar Energy Ltd. (since January 2006) and Seaview Energy Inc. (since June, 2007). Mr. Gilbert is also a director of Globel Direct Inc. (“**Globel Direct**”) (since May 1998) and Zed-I Solutions Inc. (since May 2006), technology related public entities and a director of Qwest Energy Investment Management Corp. (since January 2004). Mr. Gilbert Graduated from the University of Manitoba in 1973 with a Bachelor of Science Degree in Civil Engineering. Upon graduation he served in positions with the Alberta Energy Resources Conservation Board and Great Northern Oil Ltd. Mr. Gilbert entered the field of independent consulting in 1979 when he joined the predecessor oil and gas engineering and geological firm which became Gilbert Laustsen Jung Associates Ltd. He became a Principal Officer of the firm in 1988 and was appointed President and Chief Executive Officer in 1994 and served in both capacities until his retirement in early 2005. Mr. Gilbert is currently a member of the Association of Petroleum Engineers, Geologists and Geophysicists of Alberta, the Canadian Institute of Mining and Metallurgy and the Society of Petroleum Evaluation Engineers.

Prof. Ferenc Horvath

Prof. Horváth has been the director of the Institute of Geography and Earth Science, Eötvös Loránd University (“**ELTE**”) since 2005 and is a professor and head of the Department of Geophysics since 1999. Prof. Horváth has over 30 years of experience in basin analysis, seismic interpretation, plate tectonic reconstruction and hydrocarbon prospect analysis and his research group has a leading position in the field of high-resolution seismic profiling, data processing and interpretation. Prof. Horváth received both his MSc and PhD degrees in geophysics from ELTE, Budapest, and CSc (Candidate of Science) degree from the Hungarian Academy of Sciences.

Stephen Schultz

Stephen Schultz has been a member of the Board since June 19, 2006. Mr. Schultz is currently the Executive Director for the Jackson Hole Center for the Arts (the “**Center of Arts**”) located in downtown Jackson, Wyoming, a non-profit organization that provides a permanent home for local arts organizations and educational activities in Jackson Hole. Prior to joining the Center for the Arts, Mr. Schultz served as Director of Corporate Communications and Investor Relations for Acusphere, Inc. (NASDAQ: ACUS) where, from 2005 until 2007 he held an executive role in all communications. From 2002 to 2005, Mr. Schultz was the Director of Corporate Governance Programs for Shareholder.com where he provided Shareholder.com clients with advice on corporate governance, U.S. securities and exchange commission disclosure, and investor communications. Prior to his tenure at Shareholder.com, Mr. Schultz was Vice President of Corporate Communications and Investor Relations for Manufacturers’ Services Limited (NYSE: MSV) where he was responsible for all corporate communications. Mr. Schultz holds a B.A. from St. Lawrence University and attended the Jesse Jones School, Rice University, Executive Management Program.

Carl Stadelhofer

Carl Stadelhofer has been a member of the Board since June 19, 2006. Mr. Stadelhofer also serves as a Director and a member of the audit committee and compensation committee of Gasco. Mr. Stadelhofer is a partner with the law firm of Klein Attorneys-at-law in Zurich, Switzerland, where Mr. Stadelhofer has practiced law for over twenty years. Mr. Stadelhofer was admitted to the practice of law in Switzerland in 1982. Mr. Stadelhofer completed his law degree in 1979 in Switzerland and studied law in the United States at Harvard Law School and at Georgetown University Law School. Mr. Stadelhofer's practice specializes in banking and financing, mergers and acquisitions, investment funds and international securities transactions.

Dr. György Szabó

Dr. Szabó has been a member of the Board since April 24, 2006. Since 2005, Dr. Szabó has served as Consultant and Mining Bureau Registered Technical Responsible Person for TXM. Between 1991 and 2005, Dr. Szabó served as Chief Executive Officer of Trade Development and Engineering Ltd. Dr. Szabó has overseen the design and implementation of the deepest HP-HT well ever drilled in Hungary. Dr. Szabó was instrumental in the privatization of Hungary's former National Oil Corporation (presently MOL Hungarian Oil and Gas Public Limited Company) (BUD: MOL), the strategy relating to its capitalization, and its listing of the company on domestic and international securities exchanges in 1995. Dr. Szabó graduated from Miskolc University and received a degree in petroleum engineering in 1963. Dr. Szabó received his Ph.D. in 1975.

Roderick J. Wallis

Mr. Wallis has been an employee of Falcon since September 2007. Prior to joining Falcon, Rod Wallis was the Senior Geologist for PetroHunter. He has been in the oil and gas industry for 22 years, including 11 years as a geologist and project leader with BP p.l.c., and five years with Venture Production. Prior to joining PetroHunter, Mr. Wallis was Vice President and Chief Geologist at Gustavson Associates, LLC where he worked on unconventional plays, including the Makó Trough. Mr. Wallis obtained his degree at the Royal School of Mines, Imperial College, London, and is a member of the American Association of Petroleum Geologists, Petroleum Exploration Society of Great Britain, Rocky Mountain Association of Geologists and a Fellow of the Geological Society.

Evan Wasoff

Mr. Wasoff has been Chief Financial Officer of Falcon since April 1, 2005. Mr. Wasoff has over 25 years of experience as a Certified Public Accountant. In 1985, he founded Wheeler Wasoff, P.C., a Denver, Colorado CPA firm specializing in companies filing with the U.S. Securities and Exchange Commission between 1985 and 2005. Mr. Wasoff has been a consultant to Chartered Accounting firms in Calgary, Alberta, and Vancouver, British Columbia in securities matters and financial reporting issues in Canada and the United States. Prior to forming Wheeler Wasoff, P.C., he was a member of the audit staffs of Pannell, Kerr, Forster & Co. and Price Waterhouse. Mr. Wasoff holds an MBA in Finance from the University of Colorado and a BS in Accounting from the State University of New York at Albany. He is a licensed CPA in Colorado and a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Public Accountants, and is a member of the Board of Directors of Sportsclick Inc. (TSXV: SCV).

Penalties and Sanctions

No director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of the Company to materially affect the control of Falcon, has been subject to any

penalties or sanctions imposed by a court or securities regulatory authority relating to securities legislation, has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self regulatory body, that would likely be considered important to a reasonable security holder making an investment decision about Falcon.

Corporate Cease Trade Orders or Bankruptcies

As stated above, Mr. Gilbert is a Director of Global Direct. Global Direct was issued cease trade orders on November 20, 2002 by the British Columbia Securities Commission and on November 22, 2002 by the Alberta Securities Commission for delay in filing financial statements. The required financial statements were filed and the cease trade orders were revoked on December 23, 2002. Global Direct sought and received protection under *Companies Creditors Arrangement Act* (Canada) in June 2007 and, after a failed restructuring effort, a receiver was appointed by one of the Global Direct's lenders in December 2007.

Other than set forth above, no director or executive officer of Falcon is, or within the ten (10) years prior to the date of this Annual Information Form, has been, a director or executive officer of any company that, while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than thirty (30) consecutive days; or was subject to an order that was issued after the director or executive officer ceased to be a director or executive officer and which resulted from an event that occurred while that person was acting in the capacity as director or executive officer.

Other than set forth above, no director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of Falcon to materially affect the control of Falcon is, or within the ten (10) years prior to the date of this Annual Information Form, has been, a director or executive officer of any company that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or executive officer of Falcon or, to Falcon's knowledge, a shareholder holding a sufficient number of securities of Falcon to materially affect the control of Falcon has, within the ten (10) years prior to the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Conflicts of Interest

Certain officers and directors of Falcon are directors or officers of other oil and gas exploration companies. Consequently, potential conflicts of interest may arise in the event that these companies compete in respect of the sale or option of oil and gas properties in which Falcon is or may be interested.

The directors and officers of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors and officers conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the BCBCA and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no material legal proceedings involving the Company or its subsidiaries as at the date of the Annual Information Form and the Company knows of no such proceedings currently contemplated. As of the date hereof, there are no material penalties or sanctions imposed by a court or regulatory body against the Company or its subsidiaries and no penalties or sanctions were imposed against the Company by a court relating to securities legislation or by securities regulatory authority during the fiscal year ended on December 31, 2008.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of Falcon's current directors or executive officers, or persons or companies that are the direct or indirect beneficial owners of, or who exercise control or direction over, more than 10% of the outstanding Common Shares, or any associate or affiliate of any of the foregoing, has any interest, direct or indirect, in any material transactions in which Falcon has participated since April 1, 2005 which has materially affected or will materially affect Falcon, other than:

- (a) Marc Bruner, in respect of his interest in PetroHunter, of which he has an interest as a 35.4% shareholder (held directly and indirectly);¹
- (b) Marc Bruner, in respect of the Farmout Agreement with Pannonian, a wholly-owned subsidiary of Galaxy; which as a result of his interests in Galaxy, Mr. Bruner is a "Control Person" of Galaxy within the meaning of the policies of the TSXV; and
- (c) David Brody, in respect of legal fees paid to Patton Boggs LLP, as U.S. counsel to Falcon.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal offices in the City of Vancouver, British Columbia.

MATERIAL CONTRACTS

The following are the only material contracts entered into by the Company, other than in the ordinary course of business:

- (a) the exploration and development agreement, and the amendments thereto, as amended and restated effective December 23, 2004 between Makó and Prospect Resources, Inc. in respect of the Exploration Licences;
- (b) the underwriting agreement between the Company and the respective underwriters in connection with the December Offering dated November 22, 2007, whereby the such underwriters agreed to act as underwriters in respect of the December 2007 Offering;
- (c) the PDA;
- (d) the Amendment;

¹ Based on the Schedule 13D filing of MAB Resources LLC dated August 14, 2008. Falcon has been advised that Marc Bruner holds a controlling interest in MAB Resources LLC.

- (e) the JOA;
- (f) the Buckskin PSA;
- (g) the Buckskin Mesa Project joint operating agreement;
- (h) the Beetaloo PSA; and
- (i) the Beetaloo JOA.

Copies of the foregoing agreements, as well as a copy of the “Reserve and Economic Evaluation, Gas Property, Hackett Area, Alberta Prepared for Falcon Oil & Gas Ltd.” prepared by Chapman with an effective date of January 1, 2009 (as of December 31, 2008) dated February 6, 2009, may be inspected during normal business hours at the head office of Falcon.

INTERESTS OF EXPERTS

Names of Experts

The names of the experts are as follows:

- (a) Charles W. Chapman, co-author of the 51-101F2 Report;
- (b) Hein & Associates LLP, Certified Public Accountants, the Company’s auditors as of August 22, 2005, 717-7th Street, Suite 1600, Denver, Colorado, U.S.A., 80202; and
- (c) RPS Scotia Inc., author of the RPS Scotia Report and the Scotia Report, 4849 Greenville Avenue, Suite 1150 Dallas, Texas, U.S.A., 75206.

Interests of Experts

Charles W. Chapman, Hein & Associates LLP, Certified Public Accountants, RPS Scotia Inc. or any director, officer, employee or partner thereof, as applicable, have not received a direct or indirect interest in the property of the Company or of any associate or affiliate of the Company. As of the date hereof, the directors, officers, employees and partners, as applicable, of each of the aforementioned companies and partnerships beneficially own, directly or indirectly in the aggregate, less than one percent of the securities of the Company. No director, officer, employee or partner, as applicable, of the aforementioned companies or partnerships is currently expected to be elected, appointed or employee as a director, officer or employee of the Company or of any associate or affiliate of the Company.

ADDITIONAL INFORMATION

Additional information relating to Falcon may be found on SEDAR at www.sedar.com.

Additional financial information is provided in Falcon’s audited consolidated financial statements and MD&A for the year ended December 31, 2008.

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of Falcon’s securities and options to purchase Falcon’s securities, where applicable, is contained in Falcon’s most recent information circular dated September 8, 2008.