



August 29, 2011

Dear fellow shareholders;

I would like to take the opportunity to update you on the activities of your company, in conjunction with the filing of our second quarter financial statements. While it may have seemed 'quiet' on the news front, it has been a very busy time behind the scenes in all of our areas of activity.

Australia

Since the joint venture with Hess was finalized and announced in July, planning meetings have been held to coordinate activities on the three exploration blocks involved. Hess has completed their planning for the 2D seismic survey and has started operations.

In the Shenandoah area, Falcon has mobilised the rig to the Shenandoah#1 wellsite where we will conduct vertical testing of five intervals. During the 2010/2011 wet season over 80cm (30 inches) more rain fell than usual. This surrounded the wellhead with a shallow lake and also flooded the roadway to the wellsite. It was therefore necessary to elevate the road and the wellsite with gravel which delayed operations by roughly one month. This work is now complete and the drilling rig has started moving onto location.

The initial phase of the programme involves drilling out cement plugs and running and cementing casing in the wellbore. Once that is finished the completion and testing crews will take over. Five intervals are to be tested, three of them involving fracture stimulation of shale intervals. Given that this is a vertical well rather than a horizontal well, we are not expecting high flow rates from any individual shale interval. However, any flow of hydrocarbons to surface will be viewed positively and help steer our planning for further wells in the 100,000 acre Shenandoah area that is 100% owned and controlled by Falcon Australia.

Technical work is ongoing to determine the optimum program for exploring EP99, the 650,000-acre Falcon Australia block in the south. A seismic survey program is being planned for 2012 there. We are excited about the potential in this area based on work completed this year and look forward to presenting more detailed information once the studies and plans are complete.

Hungary

Discussions with NIS are progressing and we are on track for concluding a Participation Agreement with them by the fourth quarter. Per the terms of the Letter of Intent announced last June, the aim is to drill the

first Algyö exploration well as soon as possible once the Agreement is signed. Given the need to set up related corporate structures and obtain approval for moving equipment from Serbia, a spud date before year-end may not be possible, but we will work towards this goal. Technical teams from both companies are already collaborating on selecting prospects in anticipation of moving forward. In the meantime Falcon is designing a deeper test in one of the existing wellbores in the Mining Plot, which is expected to be carried out in 2012.

South Africa

As reported in the South African press earlier this month, the Minister of Mineral Resources has announced that the granting of new exploration licenses in the Karoo will now be delayed until February 2012 to permit further study of the potential impact of fracture stimulation and shale development in that region. Falcon's exploration license application, completed and accepted by the Ministry earlier this year, lays out an initial program involving only seismic data acquisition and geological studies. Exploration drilling and testing (including potential fracture stimulation) would therefore take place beyond the initial exploration period of two- to three years once we have a better idea of the subsurface structures and regional geology. This approach is well understood and appreciated by the regulators and I expect to receive approval to proceed with our program in February, if not sooner.

In the meantime I am supportive of the South African government's efforts to research an issue which is generating a lot of interest world-wide. While fracture stimulation has been conducted on over a million wells since the 1940's and it may be regarded as a mature technology in many ways, it is an industrial process that must be well-managed and regulated in order to ensure minimal impact and prevent damage to the environment. South Africa has the opportunity to adopt best-in-class regulations based on decades of experience in other jurisdictions. Falcon looks forward to working within a strong regulatory regime to explore and develop the Karoo's vast potential, helping to increase the use of natural gas in power generation in a region where over 90% is currently supplied by burning coal.

Thank you for your continued interest in and support of Falcon. I am confident that the work we are conducting in 2011 is laying the foundations of some very exciting news to come. We are blessed with an unusually large inventory of exceptionally high-quality resource potential and are making good progress in proving up value in all our areas.

Yours sincerely,

Robert C. Macaulay
President and Chief Executive Officer
Falcon Oil & Gas Ltd.