Initiating Coverage
FO-T:C$4.29

SPECULATIVE BUY
12-Month Target Price: N/A

Falcon Oil & Gas Ltd.

Awakening a Giant in Hungary?

May 23, 2006

View from the platform of the Crosco 403 Rig drilling ahead in the Pusztaszer-1 well

In a very short time tight gas has become a major contributor to the North American gas supply. In the past 15 years, development of tight gas sands in North America has yielded amazing results and established multiple Tcf of gas reserves, something that nobody would have guessed for the maturing and over-drilled onshore North America.

Falcon is applying its past experience as one of the pioneers of the tight gas revolution to a new and uncharted environment with strong fundamentals and encouraging geologic conditions. With the potential of multi-Tcf of reserves and a strong European appetite for gas, the Falcon story is an exciting one to participate in.

There is no guarantee that the project will be successful but the investor who is willing to speculate could be handsomely rewarded.

We are initiating coverage on Falcon with a SPECULATIVE BUY rating. We believe that Falcon's acreage in the Mako Trough has the potential to yield vast quantities of natural gas but, because the wells have not yet been flow tested, the viability of the project has not yet been established. We are expecting that the first of the well test data to be available in late summer 2006 and Falcon management has indicated that they are hoping to be producing gas from their first wells in 2006. We will monitor the story closely, but in the meantime recommend that investors with available high risk capital establish a position in the Falcon story.

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Refer to important disclosures on page 33.

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HIGHLIGHTS

Risk	High
Fiscal Year-end	Dec. 31
52-Week Range	$0.32 / $6.70
Shares Outstanding (MM)	402.3
Market Capitalization ($MM)	$2,051.7
Net Debt ($MM)	$29.0
Enterprise Value ($MM)	$2,080.7

- Basin centered gas accumulations (BCGAs) are a class of tight sands that display gas bearing reservoir that can be up to several hundred metres thick and contain immense volumes of gas in place.
- Although BCGAs have long been known to exist, early attempts to produce from them gave disappointing results.
- Advances in drilling and completion technologies have resulted in the commercialization of BCGAs and other tight gas reservoirs over the last 15 years in North America.
- Estimates indicate that tight gas currently accounts for 15% of U.S. gas production and is expected to provide an increasingly larger role in meeting U.S. gas demand in the future.
- Falcon Oil and Gas (Falcon) has acquired the right to explore for oil and gas over a combined land base of 575,263 acres (25 townships) in the Mako Trough, southern Hungary. The trough is large in aerial extent and is considered to be an exploratory BCGA.
- Falcon's management team and consultants consist of some of the world's top unconventional gas experts who have extensive experience with finding, developing and producing gas from BCGAs in North America. Marc Bruner, who is Falcon's President, CEO and Chairman of the Board, was the founder and Chairman of Ultra Petroleum Corporation, one of the most successful unconventional gas focused companies in the United States.
- Falcon is the first North American company to bring tight gas drilling and extraction technologies to Europe.
- The company is currently drilling two wells in the Mako Trough and has already finished drilling one well.
- All three wells have encountered thick sections of overpressured, gas-saturated sediments which are interpreted to be in a large BCGA cell.
- Falcon has scheduled the first completion and testing of the wells for July 2006.
- Although there is not yet any production data to indicate the potential well deliverability, currently available data suggests that the BCGA in the Szolnok and Endrod formations appear to have the potential to yield mind-boggling volumes of gas.
- Analogous fields in North America have proven to be highly economic.

INVESTMENT THESIS

Falcon's exploration program in the Mako Trough has shown very positive results. Three wells have been drilled to date that encountered thick accumulations of porous, gas-saturated sands and appear to indicate that a BCGA extends over a large area in the Mako Trough. The company has indicated that it expects to complete and test the first of the wells in July. Well testing will give an indication of potential well deliverability and economic viability of the project.

We see an investment in Falcon as speculative at this point as the economic viability of the project has not yet been proven. However, the management team and consultants at Falcon have significant experience developing BCGAs in the U.S. Rocky Mountain region. Management is following a process that proved to be very financially rewarding in delineating and developing two of the largest gas fields in the U.S.

In the last 15 years the development of tight gas reservoirs in North America has accelerated with advances in technology and gas prices. In 1990, production from tight gas reservoirs was limited but it is now estimated that tight gas reservoirs currently account for 15% of U.S. gas production and will contribute an increasing percentage in the future.

Falcon is the first North American company to bring unconventional drilling and extraction technologies (developed in the tight gas sands of the U.S. Rocky Mountain region) to Europe and is hoping to pioneer the same success that was achieved developing tight gas sands in North America.

CORPORATE OVERVIEW

Falcon has the right to explore for hydrocarbons over a combined land lease of 575,263 acres (25 townships) in the Mako Trough.

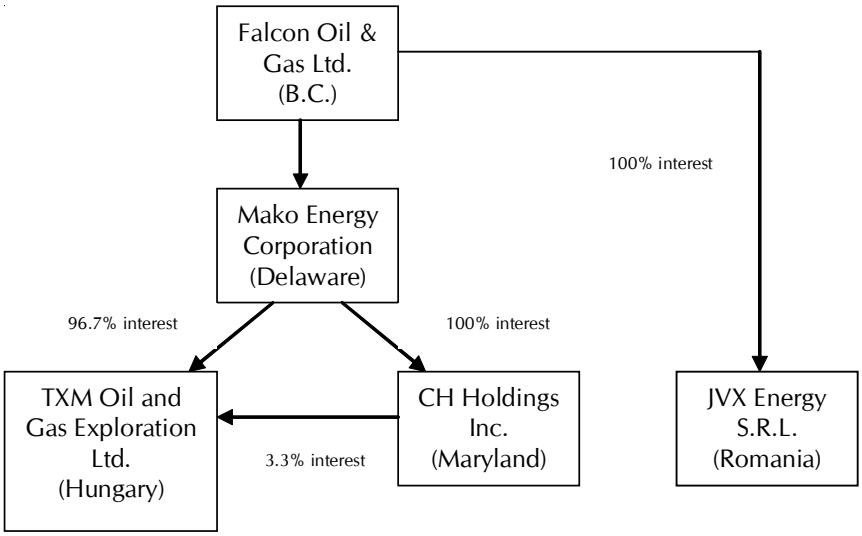
Falcon Oil & Gas Limited is an international energy company engaged in the exploration of oil and natural gas, with offices in Vancouver, British Columbia, Denver, Colorado and Budapest, Hungary. Falcon's primary focus is the identification and development of unconventional gas projects, including BCGAs and coalbed methane in Central and Eastern Europe, specifically Hungary and Romania. Falcon's common shares are listed on the TSX Venture Exchange under the symbol "FO".

Falcon has existed as a corporate entity for more than 25 years. From 1980 to 1989 it operated in the mining business as Sanfred Resources before abandoning the industry in 1999 and changing its name to Falcon Oil and Gas. After remaining dormant until the end of 2002, the company was recapitalized in 2003 and acquired some small producing oil and gas properties in Alberta. These properties do not comprise a material portion of Falcon's current asset base and the company does not anticipate any further exploration or development of its Canadian properties.

On April 1, 2005, Falcon acquired Mako Energy Corporation and subsequently completed a C$49.5 million financing at $0.30 per share. Mako's primary assets were two hydrocarbon exploration licenses in Hungary – the Mako License and the Tisza License. The licenses grant the exclusive right to explore for oil and gas over a combined land base of 575,263 acres (25 townships). The licenses extend through December 31, 2007. If economic quantities of hydrocarbons

are found during the exploration phase, Falcon can apply to the Hungarian government for a production license that allows them to commercially produce hydrocarbons.

The following chart depicts the organization of the Corporation:



Under the current licenses, Falcon is required to pay a 12% royalty to the Hungarian government, a 5% overriding royalty to Prospect Resources (the original holder of the licenses) and is subject to a Hungarian corporate tax rate of 16%. Falcon must also pay Prospect Resources a US$1 million fee before January 31, 2008 and a further US$3 million once the first three wells on the Mako license pay out. Falcon does business in Hungary through its wholly owned subsidiary TXM Oil and Gas Exploration Ltd.

Falcon currently has 402.3 million common shares, 38.8 million options and 6.7 million broker warrants outstanding.

To date, Falcon has completed five 3-D seismic surveys and identified 12 drilling locations on the Mako License. An additional five drilling locations have been identified on the Tisza License. One well has been drilled on the Tisza License and will be completed in Q3/06, one well has been drilled on the Mako License and one well is currently drilling on the Mako License.

Falcon has also entered into an agreement with Pannonian International Ltd., a wholly owned subsidiary of Galaxy Energy Corp., to pay 100% of the costs to drill two coalbed methane wells in order to earn a 75% working interest in a Romanian coalbed methane gas concession. The first well has been drilled, cased and cored and is currently awaiting completion. Falcon does business in Romania through its wholly owned subsidiary JVX Energy S.R.L.

In February 2006 Falcon entered into an agreement with Macquarie Bank Limited for a US$250 million credit facility.

In March 2006, the company completed a public offering of 69,300,000 common shares at $1.30 per Common Share, plus an over-allotment of an additional 7,700,000 for gross proceeds of C$100.1 million. The offering was open to investors in both Canada, the United States and Europe. The authorized share capital of the Corporation consists of an unlimited number of common shares. As of May 16, 2006 there were 402.3 million common shares, 38.8 million options and 6.7 million broker warrants issued and outstanding giving a total of 447.8 million shares fully diluted. At the May 19, 2005 closing price of C$4.29 the company had a market capitalization of C$1.92 billion (fully diluted).

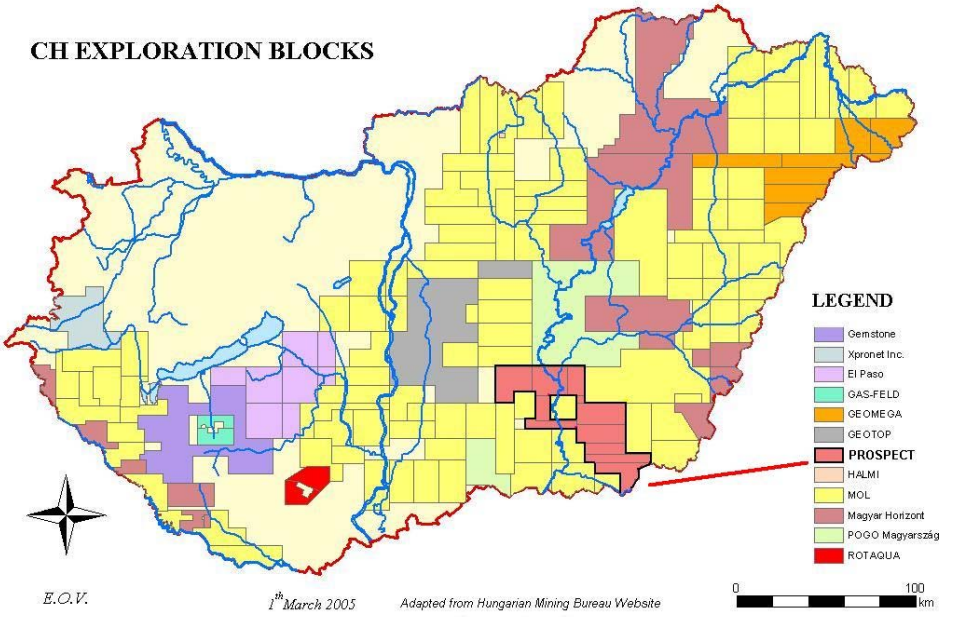
In February 2006 Falcon entered into a letter of intent with Macquarie Bank Limited for a US$250 million credit facility.

PROPERTIES

Mako Trough

The Mako Trough is located in the Pannonian Basin of southeastern Hungary near the Romanian border. The trough is large in aerial extent and is considered to be an exploratory BCGA. Falcon has obtained the right, through it's wholly-owned Hungarian subsidiary, TXM Energy LLC (TXM), to explore for hydrocarbons on the Mako and Tisza licenses in the Mako Trough (Figure 1).

Figure 1: Map of Hungary and the location of the Mako and Tisza license blocks (identified as "Prospect" on the following map).



Source: Company Reports

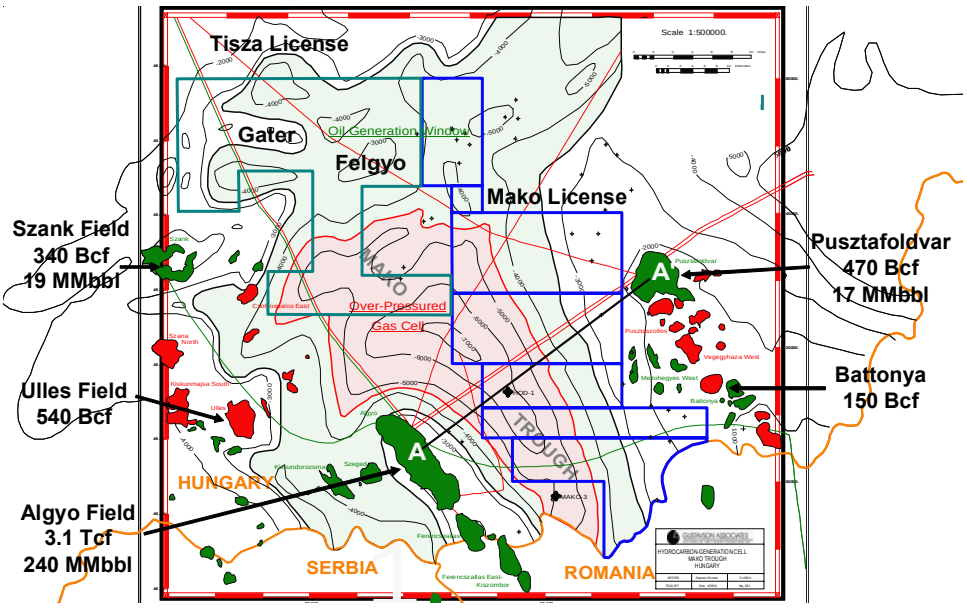
Large oil and gas fields that have produced for up to 50 years flank the Mako Trough.

Large, established oil and gas fields flank the Mako Trough including the:

- Algyö Field (estimated ultimate recovery of 760 MMboe),
- Pusztaföldár Field (estimated ultimate recovery of over 100 MMboe)
- Ulles Field (estimated ultimate recovery of over 90 MMboe)
- Szank Field (estimated ultimate recovery of over 76 MMboe)

These fields were discovered in the late 1950s and 1960s. (Figure 2).

Figure 2: Mako Trough and Offsetting Oil and Gas Fields



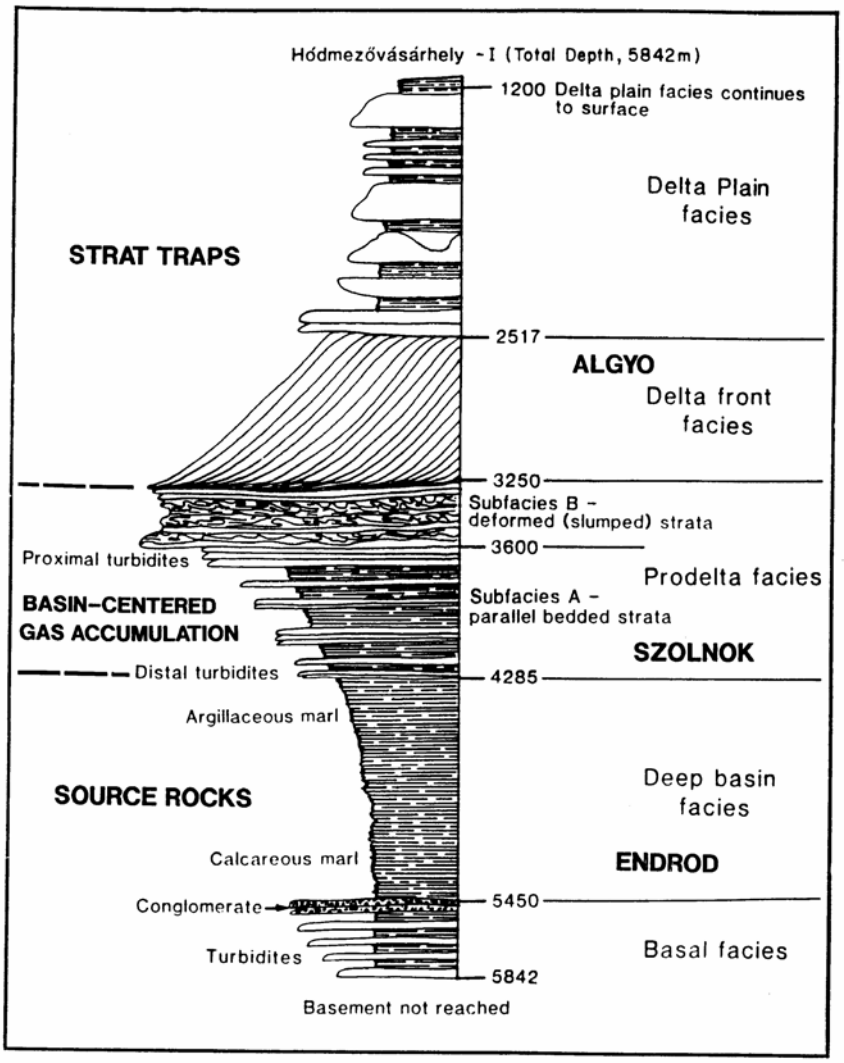
Source: Company Reports

In the late 1960s and early 1970s Hungary's state owned oil company drilled a number of exploratory wells in the Mako Trough. The wells established the presence of gas but were not commercial producers. Two key wells were drilled in the Mako Trough, the Hod-1 well and the Mako-3 well (Figure 2). These two wells helped to define the geology of the trough and the presence of gas. The stratigraphy of the Hod-1 well is identified in Figure 3.

Using the available well data, seismic data, and the understanding of BCGAs that the Falcon team has gained from exposure to analogous reservoirs, three potential play types were identified:

- Conventional (normally pressured) accumulations of oil and gas that are structurally and stratigraphically trapped in the Upper Szolnok and Algyo formations.
- Unconventional (overpressured) basin centered gas accumulations in the Lower Szolnok and Endrod formations.
- Deep oil and/or gas accumulations trapped in the turbidites of the Basal Endrod.

Figure 3: Stratigraphy of the Hod -1 Well



Source: Company Reports

The BCGA was identified in the Lower Szolnok and Endrod Formations. Conventional reservoirs are thought to exist above and below the BCGA.

An NI 51-101 compliant resource evaluation of the Mako and Tisza license blocks was done by an independent qualified reserves evaluator.

Resource Potential

A Canadian National Instrument 51-101 compliant resource evaluation of the Mako Trough (Mako and Tisza license blocks) was prepared by an independent qualified reserves evaluator in March 2005 and provided support for Mako Energy Corporation's filing with the Toronto Stock Exchange.

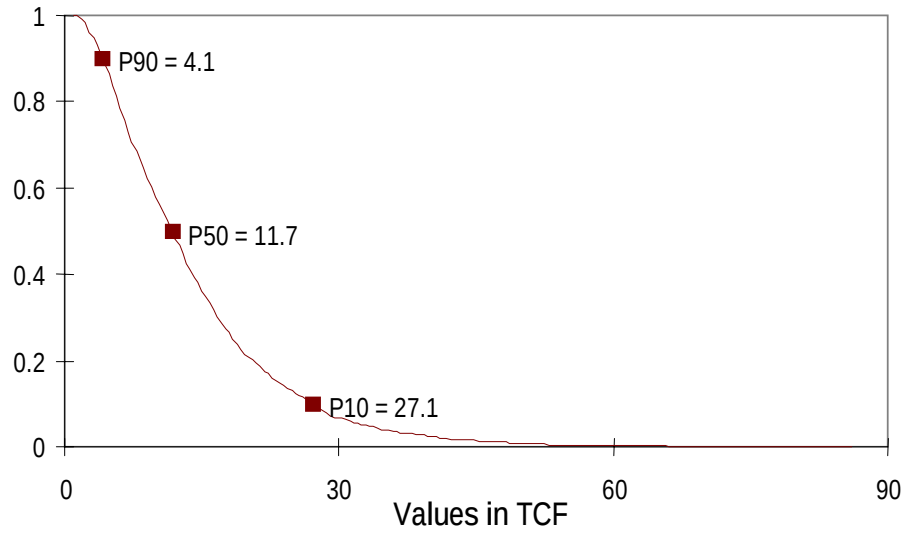
The report identifies the key risks associated with developing and producing gas from the Mako Trough as technical and economic and not geological. The geology is reasonably understood and the five factors of the petroleum system are in place, namely source rock, maturation, migration, reservoir rock and entrapment. The technical risk is associated with the technology required to drill and complete a BCGA well. While the technology is available and is being used in North America, the same technology has never been applied in Europe and therefore represents a technical risk. The economic risk arises because the potential production rates are unknown.

The independent reserves evaluator employed the volumetric method to estimate the reserves in place in the Mako and Tisza license blocks. Volumetric reserve estimates incorporate the calculation of the reservoir rock volume, the hydrocarbons in place in that volume, and the estimation of the portion of the hydrocarbons in place that ultimately will be recovered. This method of reserves evaluation is the most commonly used approach to estimating reserves in the early stages of development of an oil or gas field.

Owing to the fact that the development of the Mako and Tisza license blocks is at a very early stage, the technology that Falcon is employing is new to the basin, and there is uncertainty associated with the reservoir parameters; a probabilistic reserve analysis was conducted. Relative frequency curves that describe the range of possible values for each uncertain reservoir parameters, as well as the probabilities that these values will occur, were established. The relative frequency curves were combined in a Monte Carlo computer simulation to produce a frequency distribution of the potentially recoverable reserves.

Figure 4 shows the distribution of prospective gas resources. The term "resources" refers to the total quantity of gas that is estimated to be contained in the Mako and Tisza license blocks.

Figure 4 - Distribution of Prospective Gas Resources in the Mako Trough



Source: Resource Evaluation Report on the Mako Trough Property, Hungary by Letha C. Lencioni, March 2005.

A probablistic volumetric reserve estimate of the prospective gas resources in the Mako and Tisza license blocks indicated a range of 4.1 to 27.1 Tcf with the best estimate at 11.7 Tcf.

Key points from the resource distribution include the 50 percent probability (best estimate) the 90 percent probability (low estimate) and 10 percent probability (high estimate). The Mako and Tisza license areas have estimated prospective gas resources as follows:

- Low Estimate 4.1 TCF
- Best Estimate 11.7 TCF
- High Estimate 27.1 TCF

COUNTRY OVERVIEW

Hungary, with a population of approximately 10 million people, is one of the more politically stable and economically advanced countries in Eastern Europe. It ranks 27th out of 60 countries worldwide in the Economist Intelligence Unit's Global Business Environment Ranking, and is known as one of the most positive environments for foreign investors among Europe's former communist nations. Hungary became a full member of the EU in 2004.

Hungary is one of the more politically stable and economically advanced countries in Eastern Europe. Hungary became a full member of the EU in 2004.

Hungary appears to be positioned to continue as an attractive destination for foreign investment. GDP is forecast to accelerate to 4.4% in 2006/2007 as export growth remains strong and spending related to this spring's national elections has boosted domestic demand. Moreover, inflation should continue to weaken on the back of basic rate cuts to the value added tax.

Although the near to medium term economic outlook is encouraging, investors should be mindful that external and internal deficits will remain significant as large current account deficits are financed by new borrowing, and further investor friendly structural and economic reforms may be delayed depending upon the results of the election. The Economist Intelligence Unit speculates that Hungary's twin deficits could lead to a correction in both the currency and government debt markets, where valuations appear stretched following the tightening of interest rate spreads over the past few years. Nonetheless, Hungary is, for the most part, an attractive investment destination for a number of industries, including oil and natural gas.

THE ENERGY ENVIRONMENT IN HUNGARY

Approximately 40% of Hungary's current energy consumption is fueled by natural gas. Consumption of gas has risen substantially in Hungary over the last decade or so, driven largely by a massive drive in the 1990's to put residential users on the gas grid. At present, Hungary consumes approximately 14.3 Bcm (508 Bcf) per year. Ninety-eight percent of all residential settlements in Hungary now have access to natural gas supply, and consumption is forecast to escalate a further 20% by the year 2020.

Hungary is an energy poor country. Domestic oil and gas production has been declining for a number of years. Hungary now imports approximately 80% of the 508 Bcf/yr that it currently uses.

Unfortunately, Hungary is an energy poor country, and its supplies of natural gas are no exception. Domestic production has been in decline for a number of years as the conventional gas fields in Hungary are mature and in an advanced state of depletion. Production fell from 6.2 Bcm (220 Bcf) in 1989 to a forecast level of 2.4 Bcm (85 Bcf) in 2005-2006 and is forecast to fall to 1.0 Bcm (35 Bcf) by 2014-2015 (Source: Hungarian Energy Office). As domestic production has declined, imports have satisfied the growing Hungarian demand for natural gas. Hungary now imports approximately 80% of its natural gas, with 75% coming from Russia.

Natural gas prices now average approximately €5.50/Mcf (US$7.00/Mcf) in Hungary and Western Europe.

As gas demand has increased across Europe, natural gas prices have risen in concert. They now average approximately € 5.50/Mcf (US$7.00/Mcf) in Hungary and Western Europe. Price increases have been exacerbated in recent months by the discomfort of many European countries over what appears to have become an unhealthy reliance on Russian natural gas. This discomfort morphed into open fear in early 2006, when Russia failed to deliver contracted gas supplies

to European consumers because of a dispute with the Ukraine, and because of operational difficulties with its own energy infrastructure. Natural gas prices should remain strong in Hungary as long as domestic supply lags and reliance on Russian imports continues.

The current natural gas fundamentals make it clear that new domestic sources of natural gas will be welcomed. If Falcon's Mako Trough acreage proves to be commercial, investors will be comforted to know that along with a strong domestic market for gas, there is underutilized processing capacity resulting from the decline in the conventional reservoirs that surround the Mako Trough and a friendly regulatory environment to facilitate its delivery.

Natural gas prices are expected to remain strong in Hungary as long as domestic supply lags and reliance on Russian imports continues.

If the existing processing capacity is exceeded, a pipeline could be built to the OMV operated Baumgarten Natural Gas Hub (approximately 300 kilometres from the Hod-1 well). Since the 1970s, Baumgarten has served as a major transit point for the Russian natural gas imported by Western Europe. Approximately one third of all gas exports from Russia to Western Europe pass through the OMV natural gas junction in Baumgarten. Exhausted gas fields in the area are now used for underground storage of large quantities of natural gas needed to compensate for fluctuations between winter and summer demand.

Hungary is now several years into a period of deregulation and liberalization of the domestic gas industry. Athough deregulation is not yet complete, the market has been fully liberalized for all non-household consumers. Furthermore, at least six gas distribution companies (many of them heavily funded by western investment) are now moving gas throughout Hungary and an infant gas trading system is now emerging.

Due to insufficient domestic supply and heavy dependence on Russian imports, recent market reforms have yet to generate true competition. This is not expected to occur until at least 2010, when a pipeline to bring natural gas from the Caspian Sea region to European markets through Hungary is projected to be complete. This is not necessarily all bad for Falcon, as a lack of competitive sources of supply will ensure that Falcon's gas production will find its way to a strongly priced domestic market and generate strong U.S. dollar denominated revenues for the company, even if the Hungarian currency does weaken as forecast.

WHAT IS A BCGA?

The acronym BCGA is used to describe "Basin Centered Gas Accumulations". BCGAs are a class of tight sands characterized by overpressured, gas-saturated, low-permeability reservoirs. These accumulations differ from conventional gas accumulations in that they (1) cut across stratigraphic units, (2) commonly occur structurally down dip from more permeable water-filled reservoirs, (3) have no obvious structural and stratigraphic trapping mechanism, and (4) are almost always either overpressured or underpressured.

There are a number of technical characteristics that are used to identify a BCGA but, for the purpose of this report, we will simplify the definition and say that a BCGA is a tight gas sand. Although tight gas sands are an important type of basin centered gas reservoir, not all of them are BCGAs.

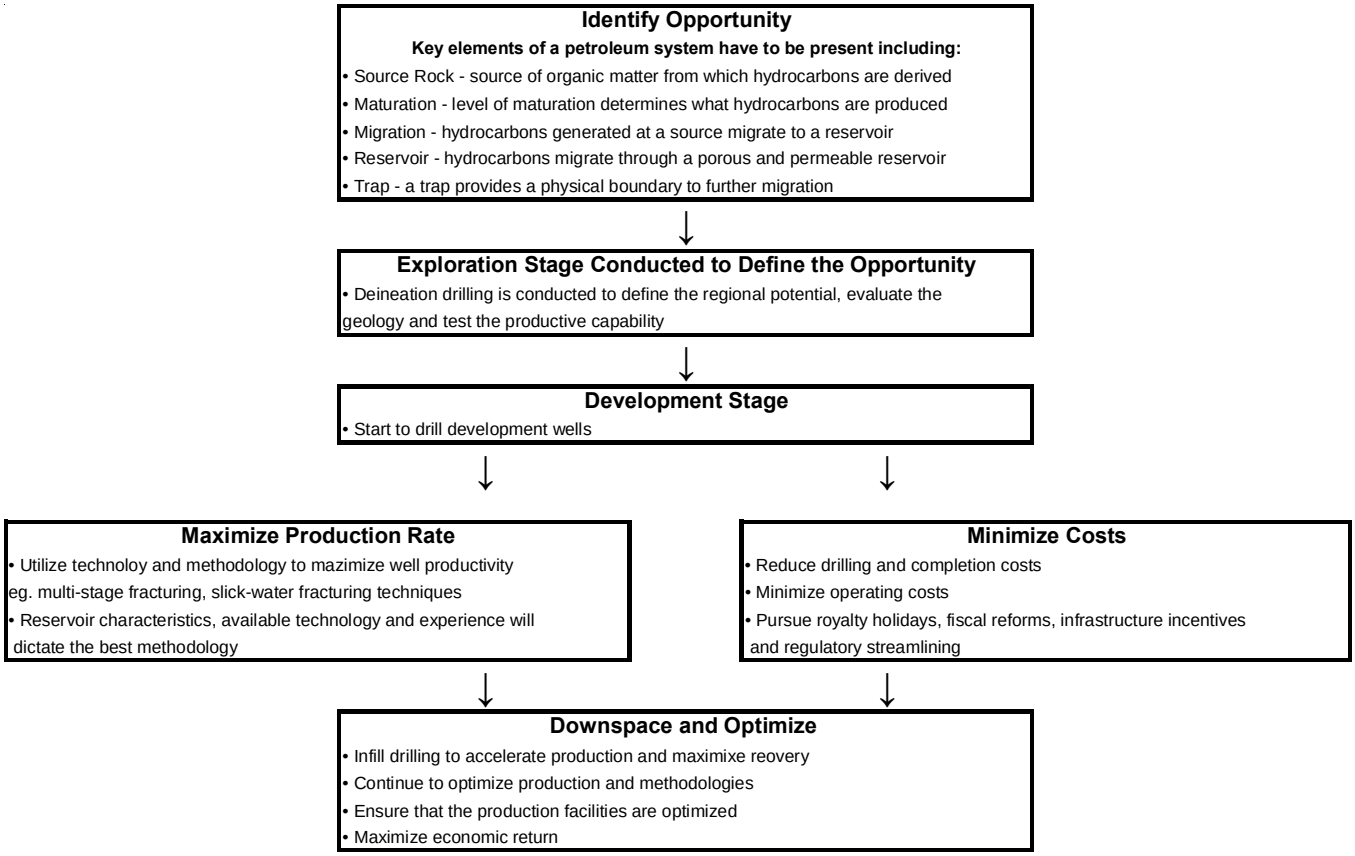
Tight gas sands produce gas from low permeability (less than 1.0 millidarcy) and low porosity (less than 13% excluding fracture permeability) reservoirs. Tight gas sands are found throughout the world and, although they have been known to exist for many decades, have not been commercially developed until recently.

Now that the worldwide demand for gas is high, natural gas prices are rising and drilling and completion technologies have advanced, oil and gas companies are specifically targeting tight gas sands. At present, almost all commercial tight gas development is in the U.S. and Canada.

BCGA DEVELOPMENT CYCLE

Tight gas plays are appealing because they can be up to several hundred metres thick, contain large volumes of gas in place, cover broad geographical areas and have low developmental risk. Wells initially produce at high rates which typically decline rapidly and flatten out to produce modest volumes over long periods of time. The key to successful development of a tight gas play is to dominate a large prospective land base, establish the viability of the play and optimize the production volumes and costs. Figure 5 provides an overview of the development cycle.

Figure 5: BCGA Development Cycle



Source: Dundee Securities Corporation

FALCON'S EVALUATION OF THE MAKO TROUGH

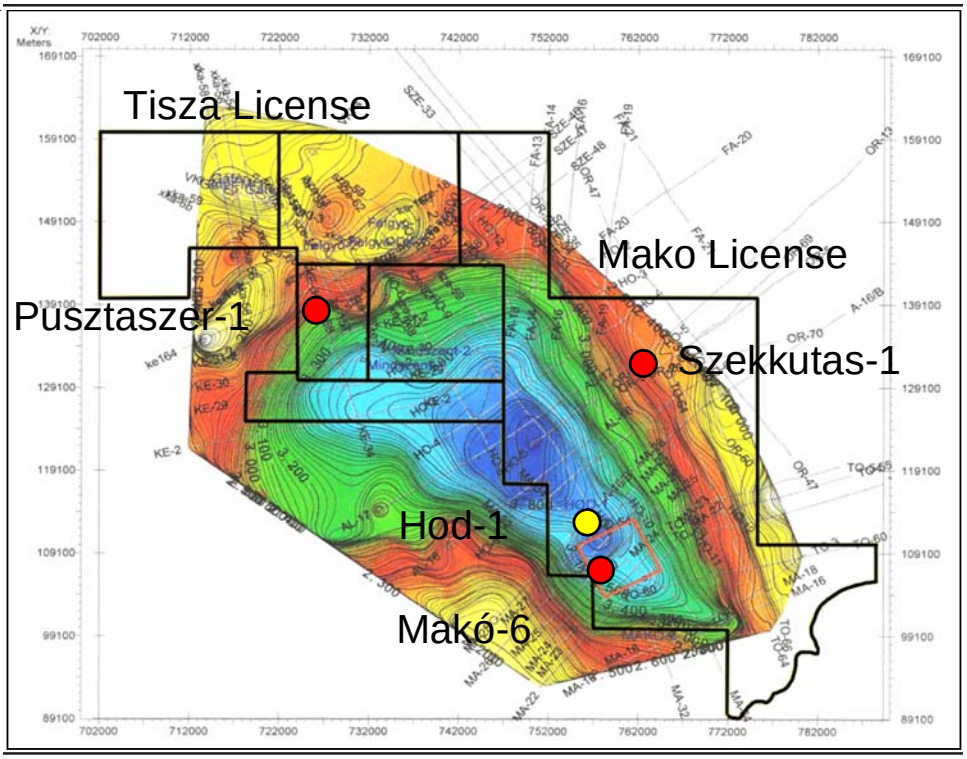
On April 1, 2005 Falcon acquired the right to explore for oil and gas in the Mako and Tisza licenses through a reverse takeover by Mako Energy Corporation. The licenses were originally acquired in 1998 and 2001 and were set to expire on December 31, 2005. Through its subsequent efforts, Falcon was able to extend both the exploration licenses through December 31, 2007.

Falcon has a 100% interest in the Mako and Tisza licenses in the Mako Trough (subject to a 5% overriding royalty to Prospect Resources and a 12% royalty to the Hungarian Government.)

Falcon currently has a 100% interest in the licenses (subject to a 5% overriding royalty to Prospect Resources and 12% royalty to the Hungarian government). If economic quantities of hydrocarbons are found during the exploration phase, Falcon can apply to the Hungarian Mining Bureau for a production license that allows them to commercially produce hydrocarbons.

The company has spudded one well in the Tisza License (the Pusztaszer-1 well, Figure 6) and two wells in the Mako License (the Mako-6 and Szekkutas-1 wells, Figure 6). Another four wells are scheduled to be drilled in 2006.

Figure 6 - Structure and License Area Map Including Falcon's recent wells



Source: Company Reports

Pusztaszer-1

The Pusztaszer-1 (P-1) well was spudded in December 2005 and reached total depth (3,900 metres) in February 2006. The P-1 well was drilled on a structure identified from 3-D seismic data about 45 kilometres north of the historic Hod-1 well. The primary objective of the P-1 well was to test the northwestern extent of the potential BCGA. The well penetrated the Algyo, Szolnok and Endrod formations and prospective gas charged sections with moderate to good porosity were found to extend over 100 metres in the Szolnok and Endrod formations. Subsequently, five inch production casing was run in the well.On April 25, 2006 the company reported that the P-1 well "encountered significant overpressured shows of gas in sections of the Szolnok Formation, which will be analyzed with regard to

position in the overall Mako BCGA. The underlying basement rocks were highly fractured and charged with gas. The cased well will be the subject of an immediate completion and testing effort scheduled for July 2006, subject to availability of completion rig and equipment."

Mako-6

The Mako-6 well was spudded in December 2005 and is expected to drill to a depth of approximately 6,000 metres. The well is in a deeper portion of the Mako Trough just south of the Hod-1 well and is intended to test the BCGA in the Lower Szolnok and Endrod formations as well as the potential for deep oil and/or gas accumulations trapped in the turbidites of the Basal Endrod.

The last reports from the company, issued April 25 and May 18, 2006, indicated that "The Crosco 801 rig reached a measured depth of 5,146 metres on May 16, 2006. As previously reported, drilling through the Szolnok Formation over a gross interval of at least 900 metres yielded overpressure gas-bearing reservoirs...wireline logs revealed a 60-percent net sand percentage and no indications of moveable water. The average porosity was 9% with peaks up to 12%...Subsequent drilling has proceeded below the Szolnok Formation and more than 700 metres of the Endrod Formation have now been drilled. ...the BCGA continuously liberated gas and required a mud weight of 16 pounds per gallon to control the well...The gas compositions ranged from methane (C1) through pentane (C5)...The substantial increase in gas pressures in the Endrod formation has made flaring a requirement to control the well."

Szekkutas-1

After drilling the P-1 well the Crosco 403 rig was moved to the Szekkutas-1 (S-1) location. The well is testing the eastern flank of the BCGA on the Mako License, approximately 40 kilometres east of the first well at P-1 and about 25 kilometres north of the second well at Mako-6 (Figure 6).

On May 18, 2006 the well had reached a total depth of 3,585 metres. According to the company "Wireline logs indicate gas saturation with no moveable water from 2,590 metres (in the lower Algyö and the upper part of the Szolnok) to total depth…this gross lithology continues as alternating shale and sands in the Szolnok Formation over a total thickness of 785 metres down to the Szolnok base at 3,375 metres." Subject to further testing, Falcon believes this data supports the location of the edges of the BCGA against the flank of the Mako Trough.

Intermediate casing has now been set in order to test a number of over-pressured formations, to protect the formations already drilled and to prepare for anticipated increases in gas pressures. We note that these developments are also significant as the gas-saturated sands of the BCGA were encountered about 800 metres higher than the previously identified BCGA top in the Mako-6 well.

Below the Szolnok formation, the well encountered the significantly over-pressured Endrod Formation which also required flaring for well control. An additional 200 metres of gas-bearing sediments were encountered, and high pressure gas continued to flow during the drilling of this section. Logs showed that these formations have low porosity and demonstrated the presence of fractures. Falcon will test this fractured gas bearing interval prior to testing the overlying Algyo-Szolnok sand-shale formations.

HISTORY AND ANALOGIES

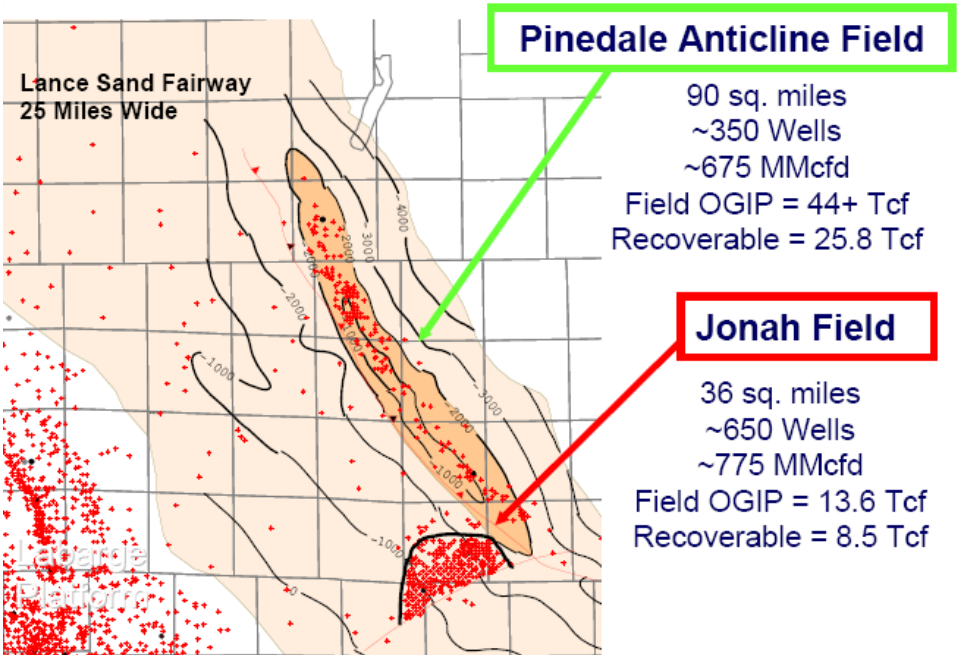
BCGAs in the United States

The U.S. Geological Survey estimates that tight gas sands and shales in the U.S. may contain as much as 460 Tcf of gas, of which an estimated 135 Tcf is economically recoverable.

There are a number of basins in the U.S. that produce from tight gas reservoirs. The most active area in the U.S. in terms of recent and near-term tight gas development is the Rocky Mountain Region. In the last 15 years, more tight gas plays have been developed in the Rocky Mountain Region than any other major U.S. onshore province. The primary tight gas basins in the region are the Greater Green River, the San Juan, the Piceance, the Uinta and the Denver-Julesburg.

Wyoming's Green River Basin produces approximately 2.5 Bcf/d of gas and 32,000 bbl/d of oil. Two of the largest and most well-known plays in the basin are the Jonah and Pinedale fields that were "discovered" in the mid 1990's. Both fields were known to contain gas well before they were "discovered" and have since proved to contain multiple Tcf of recoverable reserves from the Upper Cretaceous Lance Formation (Figure 7).

Figure 7 - Summary of the Jonah and Pinedale fields, Wyoming



Source: Ultra Petroleum April 11, 2006 Corporate Presentation

Wyoming's Green River Basin produces approximately 2.5 Bcf/d of gas and 32 Mbbl/d of oil. Two of the largest fields in the Green River Basin are the Pinedale and Jonah fields which contain a combined 57.6+ Tcf of gas in place.

Jonah Field

The U.S. Energy Information Administration (EIA) currently ranks the Jonah Field as the sixth largest gas field in the U.S. based on its proved reserves. Over the last 13 years this field has transformed into a wildly economic and highly profitable field, and the story continues to get better with time. EnCana Corporation, who is now the principal operator of the field, indicated in its 2005 Annual Report that the original estimated gas-in-place of 200 Bcf/section (completed in 2000) has been increased to between 350 and 400 Bcf/section based on improvements in technology and recovery methods.

The Jonah field was first drilled in 1975 and then redrilled in 1985. Although the original wells tested at rates up to 470 Mcf/d, they proved to be uneconomic at the time.

In 1993, McMurray Oil Company of Casper, Wyoming and Expedition Oil Company in Denver "discovered" the Jonah Field through the drilling of the McMurry Oil Company Jonah-Federal #1-5 in January 1993. This well was successful where others had not been due to a change in fracture technology. Gelled water fracs used in the 1980's were at the root of the failure to produce commercial quantities of gas from the Lance sandstones. The Jonah-Federal #1-5 well was fracture stimulated using nitrogen foam frac technology and tested at 3.7 MMcf/d of gas and 40 bbl/d of liquids. This well spurred the commercial development of the field.

As evidenced by EnCana's statements, operators continued to refine and improve the fracture stimulation technology and have progressively decreased their fracture intervals and increased the number of fracture stimulations per well with multi-stage fracture stimulations. As the technology continues to advance, so does the initial production (IP) rate of the wells and the estimated ultimate recovery (EUR). Figure 8 summarizes the evolution of well completion practices in the Jonah Field.

Advances in fracture stimulation technology allowed the Jonah field to be economically developed in 1993. Today the field is developed by approximately 650 wells that produce 775 MMcf/d of gas.

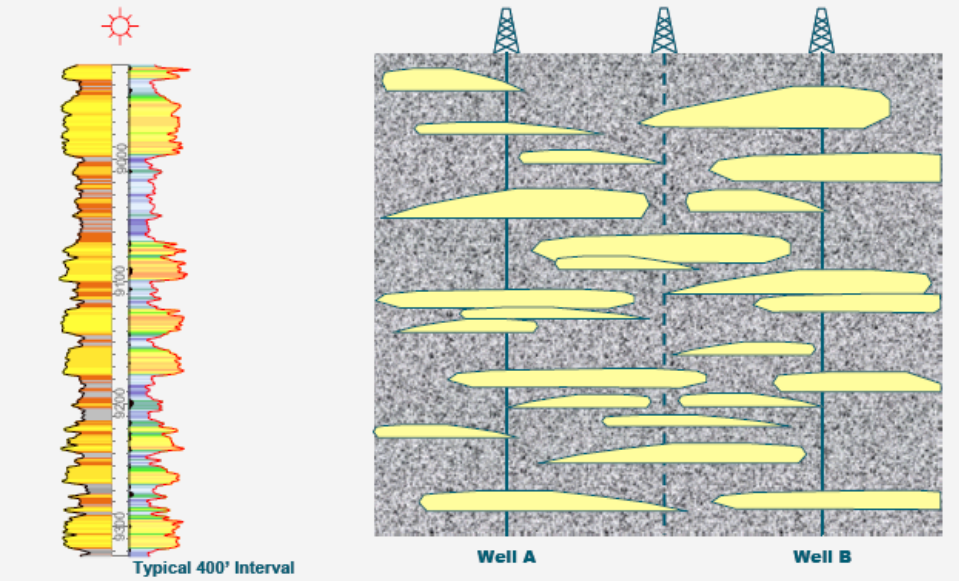
Figure 8: Evolution of well completion practices in the Jonah Field

	First Generation	Second Generation	Third Generation	Current Generation
Period	Pre-1990	1992-1993	1994-1995	2000+
Pay Section	Bottom 40%	Bottom 20-50%	50%	50-100%
Frac Stages	1	1	3	Up to 13
Frac Fluid	X-Linked Gel	N_2	N_2/Gel	Borate Gel
IP (MMcf/d)	1.4	1 to 4	3 to 5	5 to 15
EUR (Bcf)	1.5	2	3	5 to 10+

Source: GasTIPS Winter 2004

Today, the Jonah field is developed by approximately 650 wells producing approximately 775 MMcf/d (gross). The wells produce from an average of 300 metres of net pay which consists of stacked, tight fluvial sands showing 6.4% average porosity and 0.06 mD average permeability. The individual sandstone bodies are of limited vertical and areal extent and on their own would not be economic reservoirs. However, because the sand bodies are stacked vertically, the amalgamated package is thick (Figure 9).

Figure 9, Schematic Cross-Section of the Upper Cretaceous Lance Formation at Jonah



Source: EnCana Oil & Gas (USA) Inc., September 23, 2005 Jonah Field Presentation

The key to unlocking the potential of the Jonah field was the development of suitable fracture stimulation technology to enhance the naturally low permeability of the reservoir. Now that the wells produce at economic rates, the reservoirs will be downspaced to maximize gas recovery. At Jonah, wells will be drilled at 10 acre spacing versus the traditional 640 acre spacing.

The key to unlocking the potential of this type of reservoir was to enhance the naturally low permeability of the sand bodies through fracture stimulation over a number of potential reservoir zones.

Due to the low natural permeability in the reservoir and the limited penetration of the fracture stimulations, each well only drains a limited area. As the Jonah Field developed, it became evident that decreased well spacing from the traditional one well per 640 acres was required to effectively drain the reservoirs. Decreased well spacing:

1. intersects new, undrained sand bodies,
2. accelerates production rates, and
3. accesses new reserves in undrained portions of existing sand bodies

In November 2004, the Wyoming state regulatory agency approved fieldwide 10-acre spacing at Jonah. Based on 10-acre spacing, Ultra Petroleum estimates that 62.5% or 8.5 Tcf of the estimated 13.6 Tcf of gas-in-place should be recovered. EnCana's new model indicates 13.7 Tcf of gas-in-place at Jonah.

Improved completion technologies and aggressive downspacing have converted the Jonah Field from a bypassed area with low productivity to a world-class gas field.

Jonah Economics

After acquiring McMurray and the Williams Production Rocky Mountain Company in Q2/00 and Q3/02 respectively, EnCana Corp. is now the principal operator in the Jonah Field. EnCana currently produces approximately 450 MMcf/d from the field.

The Jonah field has turned out to be a highly profitable long-term producing property for EnCana.

EnCana estimates all-in 2006 drill, complete and tie-in costs for a Jonah well at approximately US$2.2 million. Expected one-year initial production rates for a well are 1.7 MMcf/d and the expected ultimate recovery (EUR) is 1.8 Bcf. New wells are expected to payout in six months.

Using US$8.00/MMbtu NYMEX gas, the 2006 operating netbacks are expected to be $6.32/Mcf. EnCana estimates that the full cycle 2006 F&D costs for the Jonah Field will be US$1.85/Mcf (US$11.10/boe) which results in a recycle ratio of 3.4.

Using $8.00/MMBtu NYMEX gas for 2006 and 2007 and $6.00/MMBtu NYMEX gas beyond 2007, the project shows a 98% after tax Internal Rate of Return (IRR) and a discounted profit-to-investment ratio (PIR) of 1.2 using a 9% discount rate.

Pinedale Anticline

The Pinedale Anticline is located just north of the Jonah Field (Figure 7). The U.S. EIA currently ranks the Pinedale Anticline as the third largest gas field in the U.S. based on its proved reserves. The Pindale Anticline was a "Sleeping Giant" for many years before it was "discovered" by Ultra Petroleum in 1997.

In 1989, Ben E. Law and C.W. Spencer edited the USGS Bulletin 1886 in which the resource potential of the Pinedale Anticline was estimated at 159 Tcf.

The first well drilled on the anticline discovered gas in 1939. Over a period between 1954 and 1971 El Paso Natural Gas drilled another nine exploratory wells in the anticline. The wells encountered significant gas shows in the Lance Formation but production rates were uneconomic. In 1969, an experiment using nuclear explosions to fracture stimulate a well drilled on the Pinedale Anticline was proposed. Due to environmental concerns and disappointing results in other projects, the proposed nuclear explosions were never implemented. However, extensive core and test data was collected from the well as a part of the process.

In 1989, Ben E. Law and C.W. Spencer published the United States Geological Survey Bulletin 1886 which incorporated the test and core data in a description of the geology of the tight gas reservoirs in the Pinedale Anticline. In that study, the authors assessed the resource potential of the Pinedale Antcline at 159 Tcf gas-in-place.

In 1996, Ultra Petroleum started to amass a land position in the Jonah and Pinedale fields. This provided the catalyst for the phenomenal growth that Ultra has experienced to date.

In July 1996, Ultra Petroleum, led by senior management including Chairman Marc Bruner, started to amass a land position in the Jonah/Pinedale fields through acquisitions and farm-ins. By February 1998 the company controlled more than 550 gross sections (330 net) of prospective acreage in the Jonah/ Pinedale area which provided the seed for the phenomenal growth that Ultra Petroleum has experienced to date.

Ultra applied the new technology that was being used at Jonah to the Pinedale Anticline. After experiencing initial success in 1997, the company has aggressively drilled their working interest lands at Jonah and Pinedale ever since.

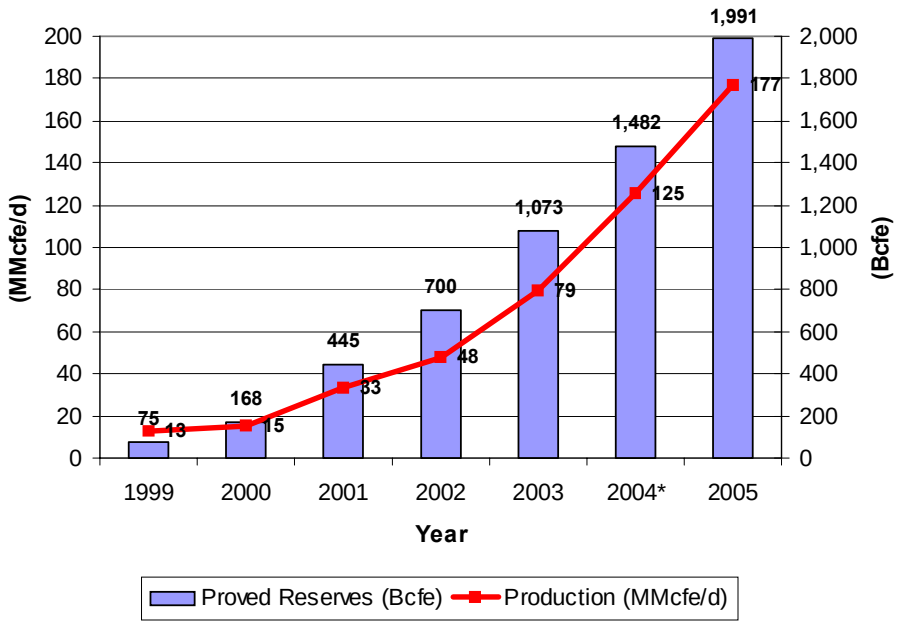
The Pinedale Anticline is now known to extend over a 90 square mile area and is developed by approximately 350 wells drilled on 10 to 40 acre spacing. The wells produce from tight, overpressured sandstones similar to those that are encountered in the Jonah Field. Total current production is estimated at 650 MMcf/d and the field is estimated to contain approximately 44 Tcf of original gas-in-place.

Ultra has applied to the Wyoming Oil & Gas Conservation Comission to increase the well density in the Pindale Anticline. The company believes that in order to effectively drain the reservoir, 10 acre well spacing is ultimately required. Based on the company's estimates;

- 7.7 Tcf (17.5% of the OGIP) is recoverable utilizing 40 acre spacing
- 15.0 Tcf (34.2% of the OGIP) is recoverable based on 20 acre spacing, and
- 25.8 Tcf (58.8% of the OGIP) is recoverable based on 10 acre spacing

According to public information, Ultra has spent US$735 million, has grown production from zero to 177 Mcfe/d and increased proved reserves from zero to 1.99 Tcf. As of December 31, 2005 Ultra was producing from 332 wells (141 net) in the Jonah and Pinedale Fields. Last year Ultra spent US$266 million and drilled 32.3 net wells. The development of these lands has led to phenomenal year-over-year production and reserve growth. Figure 10 shows the production and reserve growth between 1999 and 2005.

Figure 10: Ultra Petroleum Pinedale/Jonah Production and Reserves

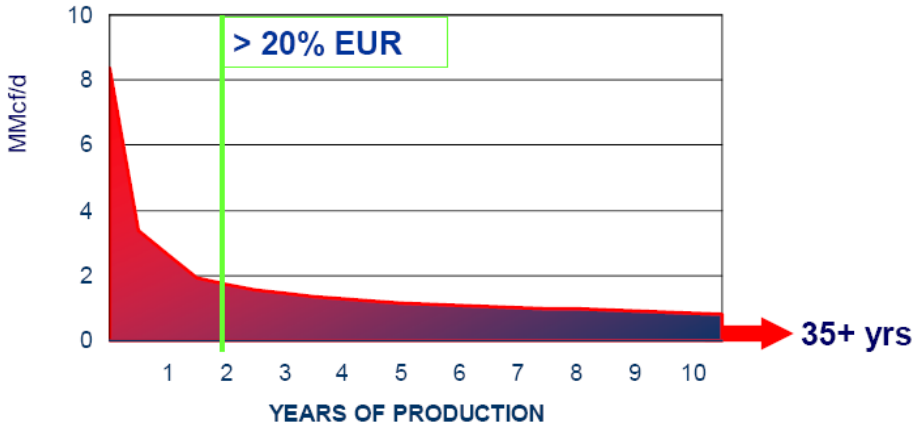


Source: Ultra Petroleum Annual Reports

Pinedale Economics

Ultra estimates all-in 2006 drill, complete and tie-in costs for a Pinedale well at approximately US$5.7 million. New wells typically come on production at over 8 MMcf/d, but decline at high rates over the first two years before settling into a more modest harmonic decline (Figure 11).

Figure 11: Ultra Petroleum Typical Pinedale Well Production



Source: Ultra Petroleum, April 11, 2006 Corporate Presentation

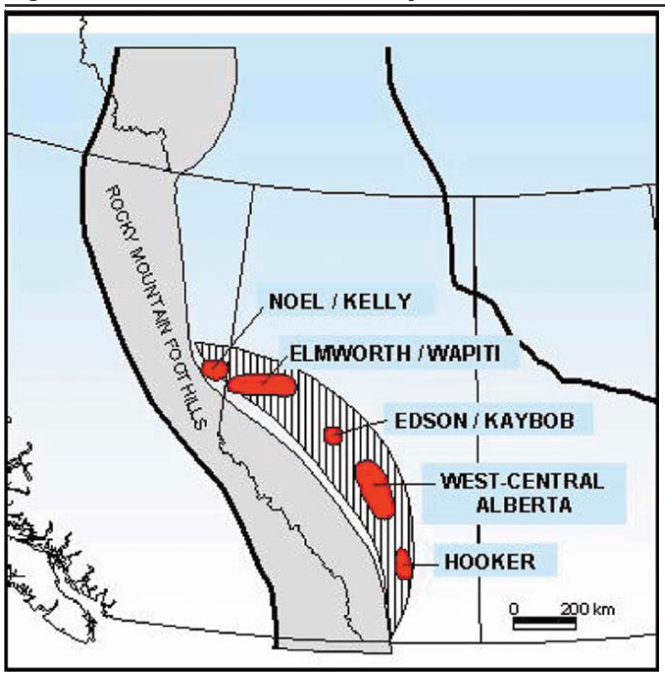
New wells are expected to payout in 1.72 years and recover 7.65 Bcfe, 20% of which is recovered in the first two years.

Ultra estimates that the full cycle 2006 F&D costs for a Pinedale well at US$0.93/Mcfe (US$5.58/boe). Using $8.00/MMBtu NYMEX gas for 2006 and beyond, the wells show a 120% after tax Internal Rate of Return (IRR).

Canadian Example of a BCGA

In 1974, Canadian Hunter Exploration Ltd. drilled an exploration well that lead to the discovery of Western Canada's Deep Basin at Elmworth. The Deep Basin was later recognized as an immense wedge of abnormally-pressured, hydrocarbon-saturated strata on the eastern flank of the Rocky Mountain Foothills (Figure 12).

Figure 12: Western Canada Deep Basin



Source: "The Deep Basin – A Hot "Tight Gas" Play for 25 Years" AAPG 2003 Annual convention

Today the deep basin is known to cover an area of approximately 180,000 square kilometres extending from northeast B.C. through Alberta to the Montana border. Cumulative gas discoveries to date exceed 80 Tcf.

In the early days of Deep Basin exploration oil and gas companies targeted "sweet spots" where the overall reservoir quality and therefore deliverability was superior. Large producing fields at Noel/Kelly, Elmworth/Wapiti, Edson/Kaybob, west central Alberta and more recently Hooker were developed in areas of higher permeability reservoir. Since first development, the Elmworth field has produced 1.48 Tcf from approximately 340 wells producing from multiple stacked Cretaceous reservoirs (including the Cadomin).

In recent years, operators have focused greater efforts on producing from tighter reservoirs with lower porosity and permeability. The reserves in the tight gas sands are immense and were known to exist since the first Deep Basin wells were drilled. However, increased gas prices and technological advances were required to make the prospect of drilling tight gas sands economically attractive. Thanks to the current pricing environment, better drilling and fracture stimulation technology and regulators that have approved increased well spacing, companies are now exploiting tight gas sands in Canada.

EnCana Cutbank Ridge

EnCana is targeting tight gas sands at Cutbank Ridge in northeast British Columbia.

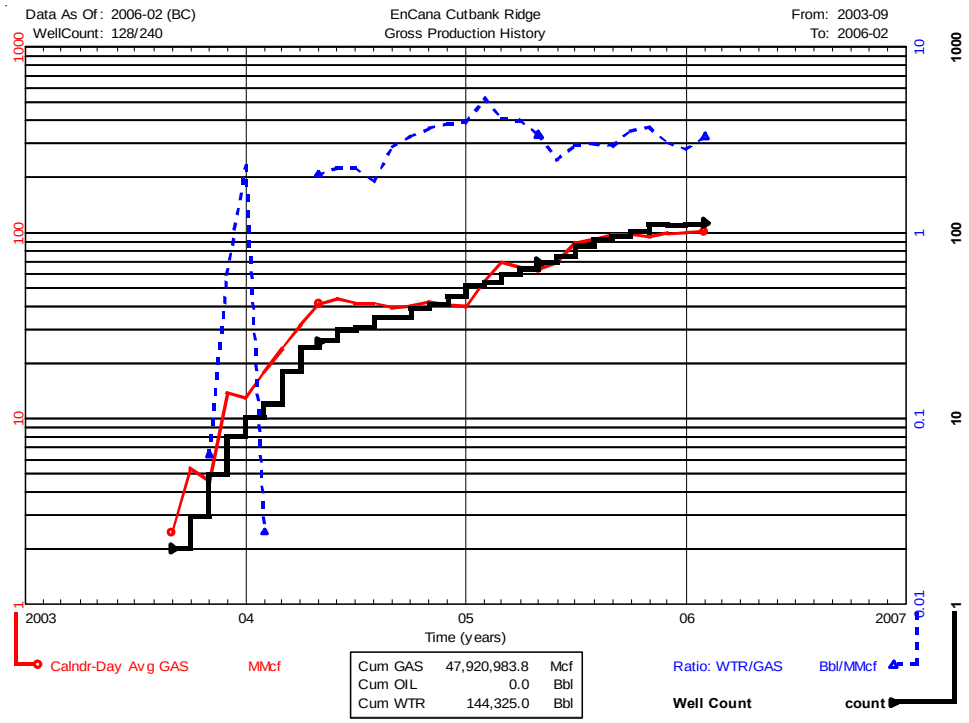
At Cutbank Ridge, northeast British Columbia, EnCana Corporation is targeting tight gas sands in the Cadomin Formation. The Cutbank Ridge Field is a northwesterly extension of the Elmworth Field that was discovered by Canadian Hunter in the 1970's. Unlike the porous and permeable Cadomin sands that produce gas in Elmworth, the Cadomin sands at Cutbank Ridge are tight (3-8% porosity and 0.01-0.05 millidarcy permeability).

Because of its exposure to tight-gas plays in the U.S., EnCana saw great potential at Cutbank Ridge. In 2003 the company amassed approximately 895,000 net acres on the play and, after a long evaluation period, started a full scale exploitation program in September 2003.

EnCana is using horizontal drilling and open-hole stimulation techniques to target tight sands that range in thickness from 5 to 40 metres. The Cadomin Formation is the anchor target but wells are also completed in shallower Cretaceous zones and production from all zones is commingled. Figure 13 shows the play development and the gross production history.

To year-end 2005 EnCana had spent C$1 Billion to drill 200 net wells in Cutbank Ridge. At year-end 2005 the company was producing an average of 92 MMcf/d and proved reserves were 0.6 Tcf.

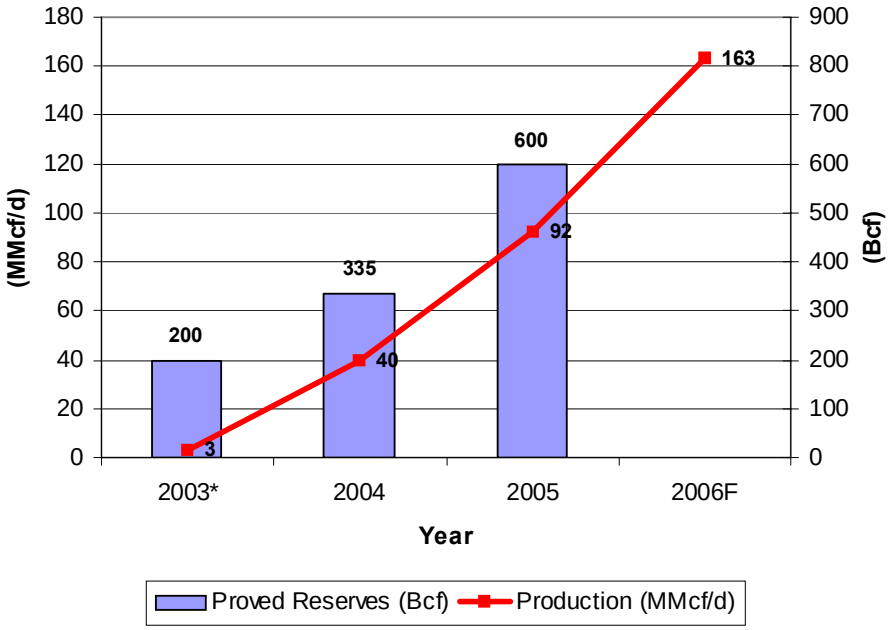
Figure 13: Cutbank Ridge Gross Production History



Source: GeoScout

EnCana started commercially producing gas at Cutbank Ridge in September 2003. By year-end 2004, the company had drilled 50 net wells and produced an average of 40 MMcf/day, up from 3 MMcf/day in 2003. In 2005, EnCana drilled another 135 net wells and produced an average of 92 MMcf/day. To year-end 2005 EnCana had spent C$1 billion to drill 200 net wells, grew production to 92 MMcf/d and reserves to 600 Bcf. In 2006, the company is budgeting to spend another C$510 million to drill an additional 115 wells. The year-over-year reserve growth story is similar to the production growth (Figure 14).

Figure 14: Cutbank Ridge Production and Reserve Growth



Source: Annual Reports

EnCana estimates that the Cutbank Ridge property has 2.1 Tcf of unbooked resource potential and 0.6 Bcf of proved reserves.

EnCana estimates that the Cutbank Ridge Cadomin play has 2.1 Tcf of unbooked resource potential. The company has a 5-year drilling inventory of approximately 700 wells.

Economics

EnCana estimates that the 2006 F&D costs for the project will be $1.50/Mcf ($9.00/boe). Using $8.00/MMBtu NYMEX gas for 2006 and 2007 and $6.00/MMBtu NYMEX gas beyond 2007, the project shows a 29% after tax Internal Rate of Return (IRR) and a discounted profit-to-investment ratio (PIR) of 0.6, or a return of $1.60 for each dollar invested using a 9% discount rate.

FALCON VALUATION

The hardest question to answer at this point is "what is it worth". The short answer is "we don't yet know". Although all the information gathered to date suggests that large volumes of gas are present within a BCGA in the Mako Trough, the key pieces of data are still not available.

What we do know is:

- Falcon has encountered tight sands in the Szolnok and Endrod formations in the Mako Trough.
- The three wells drilled to date have penetrated the Szolnok Formation and have shown porosity and gas saturation.
- In the central portion of the Trough, the Mako-6 well encountered the top of the Szolnok Formation at 3,425 metres and drilled through a gross interval of at least 900 metres of Szolnok. The Szolnok yielded overpressured gas shows and wireline logs revealed a 60-percent net sand percentage and no indications of moveable water. The average porosity was 9%.
- Continued drilling in the Mako-6 well indicated overpressured, gas saturated sediments in the Endrod Formation from 4,380 metres to about 4,800 metres (most recent press released drilling depth). The Mako-6 well is currently planned to drill to a depth of 6,000 metres.

The results to date are encouraging as it appears that the BCGA was encountered in all wells and therefore extends over a very large area. What we don't yet know is the deliverability of the wells and the gas composition. Falcon expects to test the first of the wells in July 2006. Until the wells are tested, we can only speculate on the composition deliverability. We do, however, know that the gas will burn as Falcon has recently been flaring from the Mako-6 and Szekkutas-1 wells.

Volumetric estimates indicate large volumes of original gas-in-place due to the overall thickness of net sand found in the Mako-6 well, 9% average porosity, highly overpressured reservoir and the high temperature environment. The BCGA in the Szolnok and Endrod formations appear to have the potential to yield mind-boggling volumes of gas. Given the conditions that exist in the Mako Trough and the nature of the reservoir encountered in the first three wells (particularly the Mako-6 well located in a deeper portion of the trough), we believe that IP rates of up to 20 MMcf/d or more are possible.

As previously mentioned, there are three potential play types in the Mako Trough. The shallow and deep conventional potential is overshadowed by the unconventional tight gas potential. We have therefore focused on the economics of a BCGA well and ignored the conventional hydrocarbon potential.

We ran a number of sensitivities at different IP rates of 5 MMcf/d to 20 MMcf/d using the following assumptions:

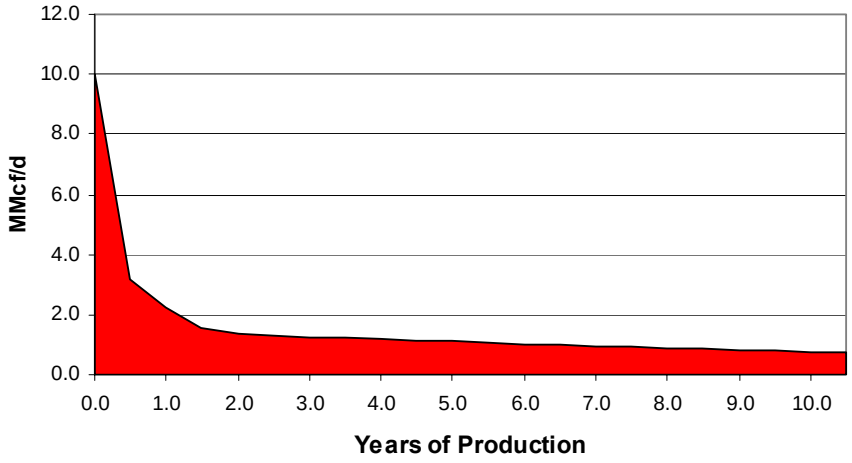
Figure 15: Governing Assumptions for Mako Well Economics

Governing Assumptions for Mako Well Economics		
Initial Production	-	Ranges from 5 to 20 MMcf/d
Liquids	-	Have not included condensate and NGL volumes
Decline Rate	-	90% over 6 months
	-	50% over the next 12 months
	-	25% over the next 6 months
	-	7% thereafter
Gas Price (Constant Prices)		
Low	-	$6.00/Mcf
Current	-	$7.00/Mcf
Drill and Case Cost		
High	-	$7.6 million
Medium	-	$6.46 million
Low	-	$5.7 million
Complete Cost		
High	-	$5.8 million
Medium	-	$4.93 million
Low	-	$4.35 million
Tie-in cost	-	Highly variable, therefore not included
Operating Costs (Escalated at 2% per year)		
Fixed	-	$4,000/well/month
Variable	-	$0.75/Mcf
Interest	-	100%
Royalties		
Hungarian Government	-	12%
Overriding Royalty	-	5% Paid to Prospect Resources Inc.
Corporate Tax Rate	-	16%

Source: Falcon Oil and Gas, Dundee Securities Corporation

We have assumed that the production profile for a well in the Mako Trough will look very similar to a well in the Pinedale Anticline (which is a typical tight gas production profile). An exponential decline was used with a 90% decline over the first six months, a 50% decline over the following 12 months, a 25% decline over the following six months and a 7% decline thereafter. The production profile remains the same for all cases, only the IP rate varies. Figure 16 shows the production profile for a well that initially produces at 10 MMcf/d.

Figure 16: Maco Trough BCGA Well Forecast Production Profile



Source: Dundee Securities Corporation

Falcon has budgeted approximately $13.4 million to drill, case and complete a BCGA well. In the development stage, the goal is to maximize production and minimize costs. Production will be maximized with improvements in technology and recovery methods. Costs will be minimized with technological advances and economies of scale. We are presenting three cases: 1) BCGA wells drilled and cased for the budgeted amount, 2) BCGA wells drilled and cased for 85% of the budgeted amount, and 3) BCGA wells drilled and cased for 75% of the budgeted amount. Tables 1 and 2 present the economics of a BCGA well at US$6.00 and US$7.00 gas.

Table 1:Economics of a BCGA well at US$6.00 gas

	Initial Production (Mcf/day)	First 6 month Decline (%)	Next 12 month Decline (%)	Next 6 month Decline (%)	Decline after 2 years (%)	Total Reserves[1] (Bcf)	ATAX Payout Period (years)	BTAX NPV 0% (US$000s)	BTAX NPV 10% (US$000s)	ATAX NPV 0% (US$000s)	ATAX NPV 10% (US$000s)	ATAX IRR (%)	BTAX PIR at 10% (NPV/Capital)	Multiple of initial Investment[5] (BTAX NPV 0%)
Case 1[2]	5,000	90	50	25	7	4.0	22.6	$1,253	($4,050)	$397	($4,238)	0.5	(0.3)	0.09
	10,000	90	50	25	7	8.6	4.7	$18,703	$5,284	$14,312	$3,610	16.9	0.4	1.40
	15,000	90	50	25	7	13.1	2.1	$36,347	$14,613	$28,396	$11,162	39.8	1.1	2.71
	20,000	90	50	25	7	17.6	1.2	$54,098	$23,949	$42,567	$18,652	71.2	1.8	4.04
Case 2[3]	5,000	90	50	25	7	4.0	13.7	$3,268	($2,133)	$2,090	($2,457)	2.9	(0.2)	0.29
	10,000	90	50	25	7	8.6	3.5	$20,716	$7,201	$16,003	$5,273	23.9	0.6	1.82
	15,000	90	50	25	7	13.1	1.5	$38,349	$16,528	$30,078	$12,786	55.3	1.5	3.37
	20,000	90	50	25	7	17.6	0.9	$56,112	$25,866	$44,258	$20,263	98.2	2.3	4.93
Case 3[4]	5,000	90	50	25	7	4.0	10.4	$4,608	($856)	$3,215	($1,291)	5.1	(0.1)	0.44
	10,000	90	50	25	7	8.6	2.7	$22,056	$8,579	$17,128	$6,365	31	0.8	2.10
	15,000	90	50	25	7	13.1	1.2	$39,689	$17,806	$31,204	$13,859	70.9	1.7	3.78
	20,000	90	50	25	7	17.6	0.8	$57,452	$27,144	$45,383	$21,336	125.9	2.6	5.47

[1]Over the first 50 years of production
[2] As budgeted (US$13.4 million drilling and completion costs)
[3] 85% of budgeted costs (US$11.39 million drilling and completion costs)
[4]75% of budgeted costs (US$10.5 million drilling and completion costs)
[5]Number of times the initial investment is paid out

Source: Resource Economic Analysis Program, Dundee Securities Corporation

Table 2:Economics of a BCGA well at US$7.00 gas

	Initial Production (Mcf/day)	First 6 month Decline (%)	Next 12 month Decline (%)	Next 6 month Decline (%)	Decline after 2 years (%)	Total Reserves[1] (Bcf)	ATAX Payout Period (years)	BTAX NPV 0% (US$000s)	BTAX NPV 10% (US$000s)	ATAX NPV 0% (US$000s)	ATAX NPV 10% (US$000s)	ATAX IRR (%)	BTAX PIR at 10% (NPV/Capital)	Multiple of initial Investment[5] (BTAX NPV 0%)
Case 1[2]	5,000	90	50	25	7	4.0	12.7	$4,591	($2,200)	$3,088	($2,617)	3.5	(0.2)	0.34
	10,000	90	50	25	7	8.6	3.3	$25,817	$9,005	$20,055	$6,661	25.1	0.7	1.93
	15,000	90	50	25	7	13.1	1.5	$47,195	$20,197	$37,153	$15,684	57.6	1.5	3.52
	20,000	90	50	25	7	17.6	0.9	$68,716	$31,395	$54,367	$24,663	102.0	2.3	5.13
Case 2[3]	5,000	90	50	25	7	4.0	9.1	$6,601	($284)	$4,777	($874)	6.5	(0.0)	0.58
	10,000	90	50	25	7	8.6	2.4	$27,827	$10,922	$21,743	$8,298	34.9	1.0	2.44
	15,000	90	50	25	7	13.1	1.0	$49,205	$22,113	$38,842	$17,294	79.4	1.9	4.32
	20,000	90	50	25	7	17.6	0.8	$70,726	$33,312	$56,055	$26,273	140.7	2.9	6.21
Case 3[4]	5,000	90	50	25	7	4.0	7.2	$7,941	$993	$5,902	$270	9.4	0.1	0.76
	10,000	90	50	25	7	8.6	1.9	$29,167	$12,200	$22,869	$9,390	45.0	1.2	2.78
	15,000	90	50	25	7	13.1	0.9	$50,545	$23,391	$39,967	$18,367	101.7	2.2	4.81
	20,000	90	50	25	7	17.6	0.7	$72,066	$34,589	$57,181	$27,346	180.0	3.3	6.86

[1] Over the first 50 years of production
[2] As budgeted (US$13.4 million drilling and completion costs)
[3] 85% of budgeted costs (US$11.39 million drilling and completion costs)
[4] 75% of budgeted costs (US$10.5 million drilling and completion costs)
[5] Number of times the initial investment is paid out

Resource Economic Analysis Program, Dundee Securities Corporation

Examining the data in Tables 1 and 2 we see that the most profound effect on the overall profitability of a BCGA well is the IP rate. Assuming that the wells display typical tight gas production profiles (Figure 16) we see that, despite the relatively high drilling and completion costs, they start to make economic sense at an IP rate of 10 MMcf/d.

At 10 MMcf/d and US$7.00 gas, a well that costs US$13.4 million to drill, case and complete will payout in 3.3 years, show an after tax internal rate of return of 25.1% and a profit-to-investment ratio of 0.7 (before tax at a 10%NPV). Additional capital will be required for gas gathering systems and gas compression and processing facilities but as a first indication, we believe that the IP for a BCGA well must be at or above 10 MMcf/d for the project to proceed. We hope to get an initial indication of the deliverability of the wells in July or August, 2006.

As IP rates increase beyond 10 MMcf/d and costs are below the current budget, the wells become highly economic.

FINAL THOUGHTS

In a very short time tight gas has become a major contributor to the North American gas supply. In the past 15 years, development of tight gas sands in North America has yielded amazing results and established multiple Tcf of gas reserves, something that nobody would have guessed for the maturing and over-drilled onshore North America.

Falcon is applying its past experience as one of the pioneers of the tight gas revolution to a new and uncharted environment with strong fundamentals and encouraging geologic conditions. With the potential of multi-Tcf of reserves and a strong European appetite for gas, the Falcon story is an exciting one to participate in.

There is no guarantee that the project will be successful but the investor who is willing to speculate could be handsomely rewarded.

RATING

We are initiating coverage on Falcon with a **SPECULATIVE BUY** rating. We believe that Falcon's acreage in the Mako Trough has the potential to yield vast quantities of natural gas, but because the wells have not yet been flow tested, the viability of the project has not yet been established. We are expecting the first of the well test data to be available in late summer 2006 and Falcon management has indicated that they are hoping to produce gas from the first wells in 2006. We will monitor the story closely, but in the meantime recommend that investors with available high risk capital establish a position in the Falcon story.

APPENDIX 1: KEY PERSONNEL CONSULTANTS AND CONTRACTORS

Marc A. Bruner – President, CEO and Chairman of the Board

Mr. Bruner, the driving force behind Falcon's development, has spent his career founding, capitalizing and developing unconventional resource plays.

- Mr. Bruner was the founder and Chairman of Ultra Petroleum Corporation (Ultra) from 1996 to 1999. He conceived and negotiated all 37 contracts for Ultra's interests in the Jonah and Pinedale Fields in the Green River Basin, Wyoming. These lands were the catalyst for Ultra to grow into one of the most successful U.S. unconventional gas producers. To year-end 2005 Ultra has grown production from zero to a 2005 average of 177 MMcfe/day, proved reserves from zero to 2 Tcfe and proved plus probable reserves from zero to 6.3 Tcfe. The U.S. Energy Information Administration ranks the Pinedale Field and the Jonah Field as the third and sixth largest gas fields in the U.S. by total proved reserves. Ultra currently has a market capitalization of over US$10 billion and has provided shareholders with a 1,773% return since it was listed on the AMEX on January 17, 2001.
- Mr. Bruner co-founded Pennaco Energy Inc. The company was founded in 1998 and was one of the largest leaseholders of coalbed methane rights in the Powder River Basin, located in northern Wyoming and southern Montana. The company went public in January 1998 at US$1.00/share and was ultimately acquired by Marathon Oil in 2001 for US$19.00/share.
- In 2000, Mr. Bruner went on to co-found Gasco Energy Inc. (Gasco), a Denver based natural gas and oil exploitation and development company focused on Utah's Uinta Basin and Wyoming's Green River Basin, and currently serves as Gasco's Chairman. Gasco currently has a market capitalization of over US$400 million.
- Mr. Bruner is also a strategic consultant to Galaxy Energy Corp., another recent start-up focusing on acquiring and developing unconventional gas resources in the US and Eastern Europe. The company is currently developing a coalbed methane project in the Powder River Basin. To date, it has acquired approximately 100,000 acres and has drilled about 180 wells. Galaxy's current market capitalization is approximately US$65 million.

Dr. James M. Edwards – Vice President, Exploration and Operations

Dr. Edwards directs Falcon's exploration activities in Hungary and Romania, and is responsible for managing operations personnel. He has been actively involved in international oil and gas exploration and exploitation for more than 27 years, and has participated in oil and gas discoveries in Australia, Colombia, Equatorial Guinea, France, Norway, Trinidad, Thailand, the United Kingdom and the United States. Dr. Edwards holds advanced degrees in geology, including a Ph.D. from Rice University.

Dr. Edwards is perhaps most well known for his work as the Chief Geologist for Triton Energy Corporation, where he participated in the discovery of the Cusiana/Cupiagua Field complex in Columbia. Triton was acquired by Amerada Hess for US$3.2 billion. He is currently the President of Equinox Energy Corp., a Dallas Texas based oil and gas consulting firm, and is a Director of Galaxy Energy Corp.

Dr. György Szabó – Director

Dr. Szabó is a Director of Falcon. He is a widely recognized authority in the Hungarian and international petroleum industry. Dr. Szabó graduated from Miskolc University where he received a degree in petroleum engineering in 1963 and a Ph.D. in 1975. He has worked as a university professor in Hungary for many years, and has been a strong proponent of exploration activity targeting basin centered gas accumulations. In the late 1960s and the early 1970s Dr. Szabó played a role in the drilling of Hungary's deepest well, the Hod-1 well.

He was the former CEO of Hungary's former National Oil Corporation and was instrumental in designing the capitalization and restructuring during its privatization. The company, now know as MOL, also benefited from his expertise during its process of listing on domestic and international securities exchanges in 1995. MOL is now the largest petroleum company in East Central Europe and is widely embraced by the international investment community.

Dr. Szabó has strong relationships with a variety of Hungarian government and business groups, including MOL and the Department of Mines. His experience and contacts will enable Falcon to successfully navigate through the Hungarian political and business environment as it executes its business plan.

CONSULTANTS AND CONTRACTORS

Ben Law

Mr. Law is currently the President of Pangeo Hydrocarbon Exploration LLC, an oil and gas consulting firm headquartered in Lakewood Colorado. Mr. Law received his B.S. and M.S. Degrees from San Diego State University.

Mr. Law has had an interest in abnormally pressured reservoirs since his employment with Texaco Inc. in 1969-71 as an exploration geologist in the Rocky Mountain region of the U.S. In 1971, he took employment with the U.S. Geological Survey (USGS) and in 1977 focused his research on low permeability gas reservoirs. He has become known as an authority on BCGAs and has published numerous papers on abnormal pressures in hydrocarbon environments worldwide. Mr. Law has studied hydrocarbon environments in the Green River Basin since the late 1970s and in 1979 recognized the potential for large accumulations of abnormally pressured gas in the Pinedale Anticline. In 1989 he edited a USGS technical Bulletin that described the geology and tight gas reservoirs in the Pinedale Anticline. His studies were a catalyst for the formation of Ultra.

Mr. Law has assisted in the evaluation of the hydrocarbon potential in the Mako Trough and will provide his expert opinions and advice on the geological and engineering data collected from the wells.

Gustavson Associates LLC

Gustavson Associates (Gustavson) is a global consulting firm based in Boulder Colorado, consisting of a multi-disciplined team of geoscientists and engineers. The company has been actively conducting appraisals and valuations of oil and gas projects for the last 25 years and has consulted to industry and governments worldwide.

Gustavson initially identified the opportunity in Hungary and is a consultant to Falcon. The firm has extensive experience evaluating tight gas reservoirs in the U.S. and worldwide and will provide technical support in evaluating technical data including seismic data, wireline log data, petrophysics and well test results.

Crosco Integrated Drilling & Well Services Company Ltd.

Crosco is a Croatian drilling contractor with 2,200 employees and 53 rigs that provide services in 23 countries. Approximately 80% of the company's activities are abroad and annual revenues total approximately US$200 million. Since 1952 Crosco has drilled more than 4,000 wells (deepest onshore being 6,119 metres) and has worked for many of the majors and supermajors. It is ISO 9001, ISO 14001 and OHSAS 18001 certified and 25% owned by MOL.

In June 2005, Falcon signed two drilling contracts with Crosco. The first contract is for a 4,000 metre rig (the Crosco 403 rig) to drill two shallow wells, with an option for a third shallow well. The second contract is for an 8,000 metre rig (the Crosco 801 rig) to drill a deep well on the Mako License (Mako 6), with an option for three additional deep wells. The two contracts provide for a total of three firm wells, with an option for Falcon to extend these contracts beyond the three wells.

Halliburton Company, Germany

Founded in 1919, Halliburton is one of the world's largest providers of products and services to the oil and gas industry. Halliburton Germany, a subsidiary of Halliburton Energy Services Inc., will provide Falcon with project management assistance in Hungary, including support for drilling and completion activities, reservoir engineering and engineering design. Two key individuals have been seconded to Falcon's Budapest office to help manage field operations.

Marc Bruner has previously partnered with Halliburton Energy Services Inc. while at Ultra. Halliburton provided financing and services to Ultra during their formative years and was one of the keys to Ultra's success on the Pinedale Anticline. Halliburton will play a leading role in designing the well completion and fracture stimulation for the BCGA wells.

Disclosures & Disclaimers

Dundee Securities Corporation is an affiliate of Dundee Corporation, Dundee Wealth Management Inc., and Goodman & Company, Investment Counsel Ltd.

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Dundee Securities Corporation has provided investment banking services to Falcon Oil & Gas Ltd. in the past 12 months.

Explanation of Rating System

MARKET OUTPERFORM: Stock will outperform the total return of the overall market. MARKET NEUTRAL: Stock will perform as well as the total return of the overall market. MARKET UNDERPERFORM: Stock will underperform the total return of the overall market. Total return of the market is expected to be 10% plus or minus 4%. (From time to time an analyst may move out of these defined rating criteria but the reason for the discrepancy will be noted in the text.) SPECULATIVE BUY: Stocks are rated Speculative Buy where the company's business or financial risk is high and where no reasonable basis for valuation can be made. Risk assessment is otherwise defined as low, medium, or high and relates solely to the risks of the stock's underlying business. SECURITY ABBREVIATIONS: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

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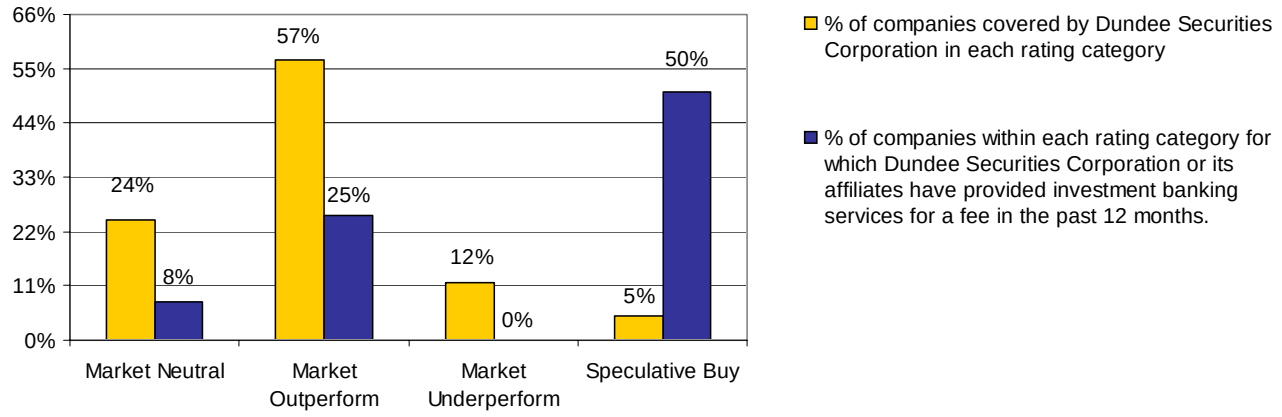
Dundee Securities Corporation from time to time publishes reports on securities for which it does not and may not choose to provide continuous research coverage. Such reports are published as Ideas of Interest. Recommendations for Ideas of Interest consist of Buy, Accumulate, Reduce, or Sell. Such recommendations are unrelated to our normal rating system described above.

Dundee Securities Equity Research Ratings



* As at March 31, 2006

Source: Dundee Securities Corporation

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