



## Notice of general meeting and explanatory memorandum

Falcon Oil & Gas Australia Limited ACN 132 857 008

For the proposed acquisition of 50,000,000 Shares by Falcon Oil & Gas Ltd.  
from Sweetpea Petroleum Pty Ltd ACN 074 750 879

**THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

**If you do not understand or are in any doubt about the action which you are required to take  
you should consult your legal, financial or other professional adviser immediately.**

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## Important dates

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Last time for receipt of proxy forms for the General Meeting	11:00am Monday, 8 July 2013
General Meeting	11:00am Wednesday, 10 July 2013

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\*These dates are indicative only and are subject to change.

## Important Notices

Capitalised terms have the meaning given to them in the glossary of the Explanatory Memorandum (section 11).

The Board comprises Messrs O'Quigley (Chairman), Craven, Oring, Livesley, Carroll and Akhmerov. Mr O'Quigley is the Chief Executive Officer and a director of Falcon Oil & Gas Ltd. (**Falcon Canada**). Messrs Craven and Akhmerov are also directors of Falcon Canada. Mr Oring is a director of Sweetpea Petroleum and the Chief Executive Officer and President of PetroHunter Energy Corporation, Sweetpea Petroleum's ultimate holding company. Given Falcon Canada's interest in the Company as its largest Shareholder and in the Proposed Acquisition, Falcon Canada has provided content for this Notice of Meeting. However, to manage any conflict of interest, or perception of such a conflict, Messrs Livesley and Carroll (respectively, the legal adviser and country manager of the Company) have formed a sub-committee of the Board to approve dispatch of the Notice of Meeting and consider other potential issues of conflict in relation to the Proposed Acquisition, if any such conflict was to arise. In particular, the sub-committee of the Board considered the position of each other Director and determined, given the disclosure of their interests in the Proposed Acquisition, it appropriate that each Director express a recommendation in respect of how Shareholders vote at the General Meeting. Please refer to section 6 in the Explanatory Memorandum for further information.

ASIC takes no responsibility for the contents of the Explanatory Memorandum.

The Explanatory Memorandum does not take into account individual investment objectives, financial situation or particular needs. Shareholders are advised to obtain independent financial, investment, legal and taxation advice before deciding whether to vote in favour of the Resolution.

# Letter from the Chairman

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7 June 2013

Dear Shareholder

## **Proposed acquisition of 50,000,000 shares in the Company by Falcon Oil & Gas Ltd.**

The board of Falcon Oil & Gas Australia Limited (**Falcon Australia** or **Company**) (**Board**) has convened a general meeting of Shareholders to be held on 10 July 2013. At that meeting, Shareholder approval will be sought for the acquisition of 50,000,000 fully paid ordinary shares in the Company by Falcon Oil & Gas Ltd., a company registered in British Columbia, Canada and listed on the Toronto (TSXV), London (AIM) and Dublin (ESM) stock exchanges (**Falcon Canada**) from Sweetpea Petroleum Pty Ltd ACN 074 750 879 (**Sweetpea Petroleum**), a wholly-owned subsidiary of PetroHunter Energy Corporation (**Proposed Acquisition**).

Falcon Canada is the majority shareholder of the Company, currently holding 72.7% of the ordinary shares in the Company. The Proposed Acquisition will increase Falcon Canada's interest in the Company to 96.9%. Falcon Canada has advised the Company that, following the Proposed Acquisition, it does not intend to exercise its right to compulsorily acquire the remaining 3.1% pursuant to the general compulsory acquisition right in the Corporations Act. However, Falcon Canada reserves the right to make offers to acquire certain of the Shareholders shares in the future, including by private treaty, scheme of arrangement or takeover bid (refer to section 4.2 of the Explanatory Memorandum).

A summary of the key terms of the Proposed Acquisition is set out in the Explanatory Memorandum.

An Independent Expert's Report which outlines the advantages and disadvantages of the Proposed Acquisition is attached as Annexure 1 to the Explanatory Memorandum. The Independent Expert has concluded that the advantages of the Proposed Acquisition outweigh the disadvantages for the non-associated Shareholders of the Company.

The Directors recommend that you vote in favour of the Proposed Acquisition at the General Meeting, for the reasons set out in the Explanatory Memorandum. In relation to that recommendation, the Board refers you to the description of the interests of the Directors set out in section 6 of the Explanatory Memorandum accompanying this Notice of Meeting. The Directors further note that none of Falcon Canada, Sweetpea Petroleum or any of their associates will vote on the Proposed Acquisition.

Yours faithfully

**Philip O'Quigley**  
**Chairman**



# Notice of general meeting

Falcon Oil & Gas Australia Limited ACN 132 857 008

Notice is given that a general meeting of Falcon Oil & Gas Australia Limited (**Company**) will be held at:

<b>Location</b>	McCullough Robertson Lawyers, Level 16, 55 Hunter Street, Sydney NSW 2000
<b>Date</b>	Wednesday, 10 July 2013
<b>Time</b>	11:00am

## Special Business

### Resolution - Approval of acquisition

To consider and if in favour pass the following resolution as an ordinary resolution.

'That for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, Shareholders approve the acquisition by Falcon Oil & Gas Ltd. of 50,000,000 fully paid ordinary shares in the Company from Sweetpea Petroleum Pty Ltd in accordance with the details set out in the Explanatory Memorandum'.

## Explanatory notes

Shareholders should refer to the Explanatory Memorandum.

## Interpretation

Capitalised terms have the meaning given to them in the glossary of the Explanatory Memorandum (section 11).

## Voting

In accordance with item 7 section 611 Corporations Act, no votes may be cast on the Resolution by Falcon Oil & Gas Ltd. Sweetpea Petroleum Pty Ltd or any of their associates and any votes cast by such person will be disregarded. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, under the directions on the proxy voting form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, under a direction on the proxy form to vote as the proxy decides.

## Voting by proxy

- (a) A Shareholder entitled to attend and vote at the General Meeting is entitled to appoint a proxy.
- (b) A proxy need not be a Shareholder of the Company. A Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

- (c) If you wish to appoint a proxy and are entitled to do so, then complete and return the **attached** proxy form.
- (d) A corporation may elect to appoint a representative in accordance with the Corporations Act in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the General Meeting.
- (e) If you have any queries on how to cast your votes, please contact Stephen Peterson on +61 419 238 506 or [speterson@falconoilandgas.com](mailto:speterson@falconoilandgas.com).

Dated 7 June 2013

By order of the Board

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Stephen Peterson  
Company Secretary

# Explanatory memorandum

Falcon Oil & Gas Australia Limited ACN 132 857 008

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## 1 Proposed acquisition

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- 1.1 Sweetpea Petroleum Pty Ltd ACN 074 750 879 (**Sweetpea Petroleum**) holds 50,000,000 fully paid ordinary shares in the Company equal to 24.2% of the issued capital of the Company.
- 1.2 Falcon Oil & Gas Ltd. (**Falcon Canada**) is the majority shareholder in the Company and holds 150,000,000 fully paid ordinary shares in the Company equal to 72.7% of the issued capital of the Company.
- 1.3 Falcon Canada has entered into a share sale agreement with Sweetpea Petroleum (**Share Sale Agreement**), under the terms of which Sweetpea Petroleum agrees to sell and Falcon Canada agrees to buy 50,000,000 fully paid ordinary shares in the Company (**Sale Shares**) (**Proposed Acquisition**).
- 1.4 The key terms of the Share Sale Agreement are as follows:
  - (a) Completion is conditional upon:
    - (i) the requisite majority of the Company's shareholders (**Shareholders**) approving the Proposed Acquisition by passing the Resolution, in accordance with item 7 of section 611 Corporations Act (as set out in section 2 below);
    - (ii) no warranty of Sweetpea Petroleum being incorrect in any material particular; and
    - (iii) the TSX Venture Exchange having issued a conditional approval letter that authorises completion of the Proposed Acquisition<sup>1</sup>.
  - (b) The consideration for the Sale Shares is:
    - (i) USD 3,000,000; and
    - (ii) the issue of 97,860,000 fully paid ordinary shares in the capital of Falcon Canada (**Falcon Shares**).
  - (c) The Falcon Shares issued as consideration will be held in escrow in accordance with the terms of an escrow deed between Falcon Canada, Sweetpea Petroleum and the escrow agent and will be released in tranches over three years, commencing from the date of completion of the Proposed Acquisition with 15% of the Falcon Shares eligible to be released during the relevant year. At the end of the third year following completion of the Proposed Acquisition, all remaining Falcon Shares will be released from escrow.
  - (d) The terms of the subscription of the Falcon Shares by Sweetpea Petroleum is contained in a subscription letter entered into by Falcon Canada and Sweetpea Petroleum.

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<sup>1</sup> Conditional approval from the TSX Venture Exchange was received on 4 June 2013.

- (e) Sweetpea Petroleum has provided the following warranties to Falcon Canada at the date of the Share Sale Agreement and at completion:
  - (i) the Sale Shares are fully paid up and, to the knowledge of Sweetpea Petroleum, have been properly and validly allotted and issued;
  - (ii) Sweetpea Petroleum is the sole legal and beneficial owner and registered holder of each Sale Share, free from any encumbrance;
  - (iii) Sweetpea Petroleum has complete and unrestricted power and authority to transfer full legal and beneficial ownership of the Sale Shares to Falcon Canada on completion;
  - (iv) there is no agreement, arrangement or understanding, or issued security, which gives or may give any person a right in respect of any transfer of the Sale Shares; and
  - (v) that Sweetpea Petroleum is not affected by an insolvency event.
- (f) At completion of the Proposed Acquisition, Martin Oring will resign as a Director. Mr Oring will not receive any retirement or termination benefits as a result of his resignation.

## **2 Resolution - Approval under item 7 of section 611 Corporations Act**

- 2.1 Section 606(1) of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company or an unlisted company with more than 50 members if, as a result of the acquisition, any person's voting power in the company would increase:
- (a) from 20% or below to more than 20%; or
  - (b) from a starting point that is above 20% and below 90%.
- 2.2 A person's voting power is essentially the total number of votes attached to shares in which that person and its associates have a relevant interest.
- 2.3 The table below shows Falcon Canada's current voting power and the maximum possible voting power that it will have after the Proposed Acquisition:

<b>Circumstance</b>	<b>Shares in which Falcon Canada and its associates have a relevant interest</b>	<b>Total Shares on issue</b>	<b>Falcon Canada's Voting Power</b>	<b>Increase in Falcon Canada's Voting Power</b>
As at the date of this Notice of Meeting	150,000,000	206,393,237	72.7%	N/A
After the Proposed Acquisition	200,000,000	206,393,237	96.9%	24.2%

- 2.4 As set out in the table above, the Proposed Acquisition would result in Falcon Canada's voting power in the Company increasing from a starting point that is above 20%, which is prohibited under section 606(1) of the Corporations Act.
- 2.5 Item 7 of section 611 of the Corporations Act provides an exception which enables a person to increase their voting power from a starting point that is above 20% and below 90%, namely where the non-associated Shareholders at a general meeting approve the acquisition of the relevant interest in the shares.
- 2.6 Accordingly, completion of the Proposed Acquisition is conditional upon the requisite majority of the Shareholders approving the acquisition of the Sale Shares by Falcon Canada. The Company is seeking that approval by way of the Resolution.

### **3 Information about Falcon Oil & Gas Ltd.**

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- 3.1 Falcon Canada is an international oil and gas company engaged in the acquisition, exploration and development of unconventional and conventional oil and gas assets. Falcon Canada's interests are located in various jurisdictions characterised by a high regional demand for energy and closeness to existing infrastructure allowing rapid delivery of oil and gas to market. In each territory in which it operates, Falcon Canada is partnered with large, credible multinational energy companies.
- 3.2 Falcon Canada's strategy is to leverage its expertise in the unconventional oil and gas industry to acquire interests in licences covering large acreages of land and to build on its internationally diversified portfolio of unconventional assets and interests, which are located in countries that the board of directors of Falcon Canada believes support the exploitation of unconventional oil and gas.
- 3.3 Falcon Canada seeks to add value to its assets by entering into farm-out arrangements with major oil and gas companies that will fully or partially carry Falcon Canada through seismic and drilling programmes.
- 3.4 Falcon Canada's principal interests are located in two major underexplored basins in Australia and South Africa and in Hungary (as detailed in Figure 1 below), covering approximately 14.75 million gross acres in total:
- (a) **Beetaloo Basin, Northern Territory, Australia:** Falcon Australia is the registered holder of four exploration permits, comprising approximately 7 million acres (approximately 28,000 km<sup>2</sup>) in the Beetaloo Basin, Northern Territory, Australia. The Beetaloo Basin is located 600 kilometres south of Darwin close to infrastructure including a highway, two pipelines and a railway, offering transport options to the Australian market and beyond via the existing and proposed LNG capacity in Darwin. The Beetaloo Basin is a Proterozoic and Cambrian tight oil and gas basin. In its entirety, the Beetaloo Basin covers approximately 8.7 million acres (approximately 35,260 km<sup>2</sup>) and is a relatively underexplored onshore exploration basin with, as far as Falcon Canada is aware, 11 exploration wells drilled in the Beetaloo Basin to date. The area is remote and sparsely populated and the board of Falcon Canada believes that it is well suited for oil and gas projects. Further information is set out in section 8 below.
- (b) **Karoo Basin, South Africa:** Falcon Canada holds a Technical Co-operation permit covering an area of approximately 7.5 million acres (approximately 30,327 km<sup>2</sup>), in the southwest Karoo Basin, South Africa, which grants Falcon Canada exclusive rights to apply for an exploration right over the underlying acreage. The Karoo Basin is approximately 173 million acres (approximately 700,000 km<sup>2</sup>) in size located in central and southern South Africa and contains thick, organic rich shales such as the Permian

Whitehill Formation. The Karoo describes a geological period lasting some 120 million years and the rocks laid down during that period of time, covering the late Paleozoic to early Mesozoic interval. These were deposited in a large regional basin and resulted in the build-up of extensive deposits.

- (c) **Makó Trough, Hungary:** Falcon Canada has been active in the Makó Trough since 2005 when it acquired two exploration licences, the Makó and the Tisza exploration licences. Between 2005 and 2007, Falcon Canada pursued a work programme consisting of the acquisition of 1,100 km<sup>2</sup> of 3D seismic data and a six-well drilling programme. Each of the six wells encountered thick sequences of hydrocarbon bearing rocks, and tests flowed hydrocarbons from each tested horizon. In 2007, Falcon Canada's subsidiary, TXM Oil and Gas Exploration Kft. (**TXM**), was awarded the 35-year Makó Production Licence which covers some of the acreage originally covered by the Makó and the Tisza exploration licences. In January 2013, TXM entered into a drilling well exploration program with Naftna Industrija Srbije JSC (**NIS**), a Serbian oil and gas company in which JSC Gazprom Neft holds a 56% stake. Drilling is expected to commence on the first well in mid-June 2013.



**Figure 1: Map of Falcon Canada's Offices and Assets**

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

3.6 The directors of Falcon Canada are:

- (a) John Craven - Chairman;
- (b) Philip O'Quigley - Director;
- (c) Dr. György Szabó – Director;

- (d) Daryl H Gilbert - Director;
- (e) Joachim Conrad - Director;
- (f) Gregory Smith - Director;
- (g) Igor Akhmerov - Director; and
- (h) David Harris – Director.

## **4 Falcon Canada's intentions following the Proposed Acquisition**

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- 4.1 If the Resolution is passed and the Proposed Acquisition proceeds, Falcon Canada will hold 96.9% of the issued capital of Falcon Australia. On the basis that Falcon Canada holds greater than 90% of the issued capital of the Company, it has a right to compulsorily acquire the remaining 3.1% of Shares under Part 6A.2 of the Corporations Act (known as the 'general compulsory acquisition right'), which must be exercised within 6 months of the date that it becomes a 90% holder.
- 4.2 The board of Falcon Canada has resolved that should the Resolution be approved by Shareholders and the Proposed Acquisition completed, Falcon Canada will not exercise its right to compulsorily acquire the remaining 3.1% for cash equivalent. However, Falcon Canada reserves the right to make offers to acquire certain of the Shareholders shares in the future, including by private treaty, scheme of arrangement or takeover bid. There is no guarantee that Falcon Canada will make such offers. However, Falcon Canada has indicated to the Company that if it proceeds to make offers to non-associated Shareholders following the Proposed Acquisition, it would do so within three months of completion of the Proposed Acquisition, for consideration most likely comprised of fully paid ordinary shares in Falcon Canada, and with such consideration equal to or exceeding the purchase price for the Proposed Acquisition. For that purpose, the value of Falcon Australia's shares would be determined on the basis of CAD 0.20 per share in Falcon Canada and exchange rate parity of the AUD, CAD and USD.
- 4.3 Falcon Canada has confirmed to the Company that as at the date of this Notice of Meeting that:
  - (a) it has no intention to change the business of the Company;
  - (b) it has no intention regarding the future employment of the Company's employees but has confirmed that it will accept the resignation of Mr Oring as a Director on completion of the Proposed Acquisition; and
  - (c) it does not intend to redeploy any fixed assets of the Company.
- 4.4 The Company has certain funding obligations, including loan repayments (refer section 8.9) and minimum spend requirements (refer section 8.8). At the date of this Notice of Meeting the Company has not determined how it will satisfy those lending obligations.

## **5 Independent Expert's Report**

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- 5.1 BDO Corporate Finance (WA) Pty Ltd (**Independent Expert**) was commissioned to prepare an independent expert's report in relation to the Proposed Acquisition, which report is attached as Annexure A to this Explanatory Statement. The report identifies the advantages and disadvantages of the Proposed Acquisition and concludes that, in their opinion the advantages of the Proposed Acquisition outweigh the disadvantages. In particular, the Independent Expert's Report identifies the advantages and disadvantages set out below.

### *Advantages of approving the Proposed Acquisition*

5.2 The following advantages have been identified by the Independent Expert:

- (a) Possible opportunity to become a shareholder in Falcon Canada.
- (b) If Falcon Canada proceeds to make offers to Shareholders, such an offer would be equal to or exceeding the purchase price of the Proposed Acquisition.
- (c) Possible continued exposure to Falcon Australia and its assets.
- (d) Opportunity for exposure to TSX, AIM and ESM.

### *Disadvantages of approving the Proposed Acquisition*

The following disadvantages have been identified by the Independent Expert:

- (e) Right of compulsory acquisition, however the Independent Expert notes that Falcon Canada has resolved not to exercise this right.
- (f) Increased control to Falcon Canada.
- (g) Reasonable and equal opportunity to participate in the Proposal benefits is not guaranteed.

5.3 The Directors support each of the advantages and disadvantages proposed by the Independent Expert and strongly recommend that you read that report in full.

## **6 Governance arrangements for the Proposed Acquisition**

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- 6.1 Given that Falcon Canada and Sweetpea Petroleum are the two major Shareholders, they each have Board representation.
- 6.2 As set out above, Falcon Canada is the largest Shareholder in the Company holding 72.7% of the issued capital. Accordingly, three out of six Directors of the Company are also directors of Falcon Canada - Messrs O'Quigley, Craven and Akhmerov.
- 6.3 Sweetpea Petroleum also has one representative on the Board of the Company – Mr Oring. Mr Oring is a director of Sweetpea Petroleum and the Chief Executive Officer and President of PetroHunter Energy Corporation, Sweetpea Petroleum's ultimate parent company. If the Resolution is approved and the Proposed Acquisition proceeds, Mr Oring will resign as a director of the Company.
- 6.4 Given Falcon Canada's interest in the Company as its largest Shareholder and in the Proposed Acquisition, Falcon Canada has provided content for this Notice of Meeting and provided information to the Independent Expert to assist with the preparation of the Independent Expert's Report. However, to manage actual, potential or perceived conflicts of interest in relation to the Proposed Acquisition, the two Directors who are not associated with Falcon Canada or Sweetpea, Messrs Livesley and Carroll (respectively, the legal adviser and country manager of the Company) have formed a sub-committee of the Board (**Sub-Committee**). The role of the Sub-Committee is to approve dispatch of the Notice of Meeting and consider other potential issues of conflict in relation to the Proposed Acquisition, if any such conflict was to arise.
- 6.5 In particular, the Sub-Committee considered the position of each other Director and determined, given the disclosure of their interests in respect of the Proposed Acquisition, it was appropriate

that each Director express a recommendation in respect of how Shareholders vote at the General Meeting. The Directors' recommendations are set out in section 7 below.

## 7 Directors' recommendation

- 7.1 Each of the Directors recommend that Shareholders vote in favour of the Resolution, for the reasons set out in this Explanatory Memorandum.
- 7.2 As set out in section 6 above, the Sub-Committee determined that each other Director who is also a director of Falcon Canada and Sweetpea Petroleum should be entitled to express a recommendation in respect of how Shareholders vote on the Resolution at the General Meeting provided that their respective interests in the Proposed Acquisition are clearly disclosed.
- 7.3 The Directors further note that none of Falcon Canada, Sweetpea Petroleum or any of their associates will vote on the Resolution.
- 7.4 As set out above in section 4.2, there is no guarantee that Falcon Canada will make offers to the non-associated Shareholders following completion of the Proposed Acquisition.

## 8 Information about Falcon Australia

- 8.1 As set out above in section 3.4, Falcon Australia is the registered owner of four exploration permits spanning 7,000,000 acres in the Beetaloo Basin, Northern Territory, Australia (**Beetaloo Permits**). The Beetaloo Basin is a Proterozoic and Cambrian tight oil and gas basin and is relatively unexplored (to the Company's knowledge, only 11 exploration wells have been drilled to date). For this reason, the Board believes that the Beetaloo Basin has shale oil, shale gas and basin centered gas accumulations potential.
- 8.2 The Beetaloo Basin is located 600 kilometres south of Darwin in the vicinity of infrastructure, including a highway, two pipelines and a railway, which offers transportation options through the existing and proposed LNG capacity in Darwin to the Australian market and beyond.

### Exploration Permits

- 8.3 The following table summarises the Beetaloo Permits:

Assets	Operator	Status	Area (km <sup>2</sup> )	Expiry
Exploration Permit EP-76 (Beetaloo Basin, NT)	Hess <sup>(ii)</sup>	Exploration	4,976.3	31 December 2013
Exploration Permit EP-98 (Beetaloo Basin, NT)	Hess <sup>(i) (ii)</sup>	Exploration	11,412.1	31 December 2013
Exploration Permit EP-99 (Beetaloo Basin, NT)	Falcon Australia	Exploration	2,587.2	31 December 2013
Exploration Permit EP-117 (Beetaloo Basin, NT)	Hess <sup>(ii)</sup>	Exploration	9,218.3	31 December 2013

#### Notes:

<sup>(i)</sup> Falcon Australia retains operatorship in the Shenandoah-1 well and approximately 405 km<sup>2</sup> (approximately 100,000 acres) land around the Shenandoah-1 well-bore in exploration permit EP-98.

<sup>(ii)</sup> Falcon Australia entered into a joint venture with Hess Australia (Beetaloo) Pty Ltd. in 2011.

## **Joint Venture with Hess Australia (Beetaloo) Pty Ltd**

- 8.4 In April 2011, the Company entered into a joint venture with Hess Australia (Beetaloo) Pty Ltd (**Hess**), a wholly-owned subsidiary of Hess International, a leading global energy company.
- 8.5 Under the Evaluation and Participation Agreement, Hess paid \$17.5 million to the Company as a participation fee for the exclusive right to conduct operations for the exploration, drilling, development and production of hydrocarbons over an area made up of three of the four Beetaloo Permits (as set out in the table above) (**Hess Area of Interest**), excluding Exploration Permit EP-99 (which Falcon Australia operates) and an area within Exploration Permit EP-98 (the Shenandoah-1 well and approximately 100,000 acres of land around the well-bore).

## **Current activities**

- 8.6 Hess has acquired 3,490 kilometres of seismic data at an estimated cost in excess of \$55 million since the signing of the Evaluation and Participation Agreement, which is currently being processed and interpreted.
- 8.7 Hess has the option to acquire a 62.5% working interest in the Hess Area of Interest (expiring on 30 June 2013), if it commits to drill and evaluate five exploration wells at its sole cost, one of which must be a horizontal well. Subject to proceeding to development phase, Hess has agreed to fund the first development well (the sixth well), up to USD 10 million. Following the evaluation of the exploration wells and the first development well, costs to drill further wells will be split 62.5% by Hess and 37.5% by Falcon Australia.
- 8.8 In accordance with the minimum work commitments for Exploration Permit EP-99, Falcon Australia must spend \$1.6 million by 31 December 2013 in collecting 2D seismic data on the underlying acreage within Exploration Permit EP-99. Falcon Australia intends to meet this commitment either through a farm-out arrangement or through its own resources.
- 8.9 In May 2012, Falcon Canada advanced a USD 12.5 million loan facility to the Company with a 13 month term ending on 14 June 2013 at an interest rate of Libor plus 2% up to a maximum of 7% (**Facility**) to fund acquisition and exploration activities. Falcon Canada agreed to extend the term of the Facility to 30 September 2013. The Company may consider conducting an equity raising in order to repay the Facility, or it may seek to obtain a further extension of the term.

## **9 Information about Sweetpea Petroleum**

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- 9.1 Sweetpea Petroleum is a wholly-owned subsidiary of PetroHunter Energy Corporation (**PetroHunter**) and previously held 100% of the Company's Beetaloo Permits.
- 9.2 On 30 September 2008, the Company and Falcon Canada completed the acquisition of a 50% working interest in the Beetaloo Permits in accordance with the terms of a purchase and sale agreement with PetroHunter and Sweetpea Petroleum. In June 2009, the Company completed the acquisition of an additional 25% working interest in the Beetaloo Permits, at which time the Company became the operator of the project.
- 9.3 In December 2009, pursuant to a further transaction, the Company, Falcon Canada, Sweetpea Petroleum and PetroHunter entered into an agreement under the terms of which the Company issued Sweetpea Petroleum the Sale Shares as consideration for its remaining 25% working interest in the exploration permits. The Company also issued Falcon Canada with 149,999,999 Shares in consideration for the conversion of a portion of the Company's debt payable to Falcon Canada, which equated to the approximate acquisition cost for the 75% working interest in the permits.

## 10 Other important information

10.1 The Corporations Act and ASIC Regulatory Guide 74 set out additional information to be provided to Shareholders when seeking approval under item 7 of section 611 Corporations Act, to assist Shareholders in assessing the merits of the proposal. This information is set out in the table below (to the extent that it is not otherwise included in this Explanatory Memorandum).

	Notice requirements	Details
1	Reasons for the Proposed Acquisition	<p>Sweetpea Petroleum is a willing seller of its interest in the Company and Falcon Canada as the majority Shareholder of and lender to the Company is a logical buyer.</p> <p>The Company understands that in considering the acquisition of Sweetpea Petroleum's interest, Falcon Canada considered the possibility of making a takeover bid for all the shares in the Company that it does not currently own. The Company is instructed that Falcon Canada decided not to make such a bid on the basis of the extended timetable for such a transaction and the likely expense (on account of compliance with Australia laws).</p>
2	When will Proposed Acquisition occur?	If the Resolution is approved by Shareholders on 10 July 2013, then completion of the Proposed Acquisition will occur within three to five Business Days in accordance with Share Sale Agreement.
3	The material terms of the Proposed Acquisition	Refer to section 2.3
4	What are the consequences of the Resolution being voted down?	<p>If the Resolution to approve the Proposed Acquisition is not passed, the sale will not proceed and Sweetpea Petroleum will maintain its interest in the Company.</p> <p>Under the Corporations Act, Sweetpea Petroleum would be able to sell shares in the Company representing no more than 20% of the voting power of the Company to a non-associated party. Similarly, Falcon Canada is able to acquire a relevant interest in shares representing 3% of the voting power in the Company over a six month period (known as the 'creep rule'). Neither party has expressed any intention in that regard in the event that the resolution is not approved.</p> <p>If the Resolution is not passed, Falcon Canada may consider proposing that the Company conduct an equity raising in order to repay the Facility and to fund acquisition and exploration activities, specifically in relation to the capital expenditure requirement on Exploration Permit EP-99 (refer section 8 above).</p>
5	The terms of any other relevant agreement between Falcon Canada and Sweetpea Petroleum	Refer to section 9 above.

	<b>Notice requirements</b>	<b>Details</b>
6	What are Falcon Canada's intentions in relation to the Company?	Refer to section 4 above.
7	Are there any other risks that Shareholders should be aware of if they chose to vote in favour of the Resolution to approve the Proposed Acquisition?	As set out in section 4.2, by voting in favour of the Resolution Shareholders should be aware that notwithstanding Falcon Canada's current intention, there is no guarantee that they will be offered shares in Falcon Canada following completion of the Proposed Acquisition, in which case they will continue hold a minority stake in Falcon Australia.
8	What are the interests of the Directors in the Resolution?	Other than as disclosed in section 6 of this Explanatory Memorandum, none of the Directors have any interest in the outcome of the Resolution. Refer to section 6 above.
9	What was the Q&A document which appeared on Falcon Australia's website on 30 May 2013?	Falcon Australia issued a document containing questions and answers regarding the Proposed Acquisition and Falcon Canada's intentions if the Resolution was approved, which appeared on Falcon Australia's website on 30 May 2013. The Q&A document stated that Falcon Canada intended to make offers to all non-associated Shareholders following completion of the Proposed Acquisition and set out the terms of such offers. However, following receipt of legal advice from Australian counsel regarding the statements contained in the Q&A document, Falcon Canada procured that the document be removed from Falcon Australia's website on 31 May 2013. Falcon Australia reiterates that Falcon Canada's intentions following the Proposed Acquisition are clearly set out in section 4.2 of the Explanatory Memorandum and to the extent that non-associated Shareholders reviewed the Q&A document, they should not rely on the statements made in that document in assessing whether to vote in favour of the Resolution. The Directors of Falcon Australia encourage Shareholders to carefully review the information contained in this Notice of Meeting and Explanatory Memorandum, together with the Independent Expert's Report in assessing the merits of the Proposed Acquisition.

## 11 Glossary of terms

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In the attached Notice of Meeting and Explanatory Memorandum the following words and expressions have the following meanings:

<b>Term</b>	<b>Definition</b>
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>AUD</b>	means Australian dollars.
<b>Business Day</b>	means a day that is not a Saturday, Sunday or public holiday in Brisbane, Queensland.
<b>CAD</b>	means Canadian dollars.
<b>Company or Falcon Australia</b>	means Falcon Oil & Gas Australia Limited ACN 132 857 008
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cth).
<b>Directors</b>	means the directors of the Company from time to time.
<b>Explanatory Memorandum</b>	means this Explanatory Memorandum.
<b>Falcon Canada</b>	means Falcon Oil & Gas Ltd. a company incorporated in British Columbia, Canada.
<b>Independent Expert's Report</b>	means the independent expert's report prepared by BDO Corporate Finance (WA) Pty Ltd attached as Annexure A to the Explanatory Memorandum.
<b>Notice of Meeting</b>	means the notice of general meeting which accompanies this Explanatory Memorandum.
<b>Resolution</b>	means the resolution set out in the Notice of Meeting to be considered and voted on by Shareholders.
<b>Shares</b>	means a fully paid ordinary share in the capital of the Company.
<b>Shareholders</b>	means the holders of the Shares in the Company from time to time.
<b>Share Sale Agreement</b>	means the Share Sale Agreement between Sweetpea Petroleum Pty Ltd and Falcon Oil & Gas Ltd.
<b>Sweetpea Petroleum</b>	means Sweetpea Petroleum Pty Ltd ACN 074 750 879
<b>USD</b>	means U.S. dollars.

## Proxy form

### Section 1: Name and address of member

Full name \_\_\_\_\_

Address \_\_\_\_\_

### Section 2: Appointment of proxy

I, being a member of the Company and entitled to attend and vote appoint

the Chairman of the meeting  
(mark with an 'X')

OR

Write here the full name of the person or body corporate you are appointing if this person is **someone other than** the Chairman of the meeting.

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the meeting, as my proxy to attend, to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit), and to act generally on my behalf, at the general meeting of the Company to be held at:

<b>Location</b>	McCullough Robertson Lawyers, Level 16, 55 Hunter Street, Sydney NSW 2000
<b>Date</b>	10 July 2013
<b>Time</b>	11:00am

and at any adjournment of that meeting.

### Section 3: Voting instructions

Voting directions to proxy – please mark  to indicate your directions.

Resolution – Approval of Proposed Acquisition for the purposes of item 7 of section 611 of the *Corporations Act 2001* (Cth)

For	Against	Abstain*	Discretion
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

\*If you mark the Abstain box for a particular item, you are directing your proxy **not** to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**If you do not wish to direct the Chairman as your proxy to vote, please place a mark in this box.**

By marking this box you acknowledge that the Chairman may exercise your proxy even if he or she has an interest in the outcome of the resolution, and that votes cast by him or her, other than as proxy holder, would be disregarded because of that interest.

The Chairman intends to vote all undirected proxies in favour of the resolutions being passed.

### Section 4: Signing by member

This section **must** be signed in accordance with the instructions overleaf to enable your directions to be implemented.

**Individual or Member 1**

**Sole Director and Sole Secretary**

**Member 2 (if joint holding)**

**Director/Company Secretary**  
(delete one)

**Member 3 (if joint holding)**

**Director**

Please provide the information below in case we need to contact you.

\_\_\_\_\_  
**Contact name**

\_\_\_\_\_  
**Contact day time telephone**

\_\_\_\_\_  
**Date**

# Instructions for completion of proxy form

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## Section 1: Name and address of member

1 Insert your name and address. If it is a joint holding, insert details of all holders.

## Section 2: Appointment of proxy

- 2 If you wish to appoint the Chairman of the meeting as your proxy, mark the box. If the person or body corporate you wish to appoint as your proxy is someone other than the Chairman of the meeting, write the full name of that person or body corporate in the space provided. A proxy may be an individual or a body corporate. If you leave this section blank or your named proxy does not attend the Meeting, the Chairman of the meeting will be your proxy. A proxy need not be a member of the Company.
- 3 If you are entitled to cast two or more votes at the general meeting, you are entitled to appoint two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional proxy form may be obtained by telephoning the Company. Alternatively you may copy this form.
- 4 To appoint a second proxy:
  - (a) on each of the first proxy form and second proxy form state the percentage of your voting rights or number of securities applicable to that form (if the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise one half of your votes, and fractions of votes will be disregarded); and
  - (b) return both forms in the same envelope.

## Section 3: Voting instructions

5 You may direct your proxy how to vote on an item of business by placing a mark in one of the three boxes opposite that item of business. All of your securities will be voted in accordance with your direction unless you indicate a proportion of voting rights on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may decide whether or how to vote on that item. If you mark more than one box on an item, your vote on that item will be invalid.

## Section 4: Signing by member

6 You must sign this form as follows in the spaces provided:

<b>Individual</b>	Where the holding is in one name, the member must sign.
<b>Joint holding</b>	Where the holding is in more than one name, all of the members must sign.
<b>Power of Attorney</b>	To sign under power of attorney, either the power of attorney must have already been lodged with the Company's share registry for notation or the original (or a certified copy) of the power of attorney must accompany this document.

<b>Companies</b>	<p>In the following cases, subject to the Company's constitution, the following person must sign:</p> <p>(a) <b>Australian proprietary company</b> with a <b>sole director</b> who is <b>also the sole company secretary</b> – that person must sign;</p> <p>(b) <b>Australian proprietary company</b> with a <b>sole director and no company secretary</b> – that person must sign;</p> <p>(c) <b>other Australian companies</b> – two directors, or one director and one company secretary must sign; and</p> <p>(d) <b>foreign company</b> – in accordance with the laws of the jurisdiction of incorporation and constituent documents.</p>
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### Corporate representatives

- 7 If a representative of the corporation is to attend the meeting the appropriate 'Certificate of Appointment of Corporate Representative' should be produced prior to admission in accordance with the notice of meeting. A form of the certificate may be obtained from the Company's registry.

### Section 5: Lodging of proxy

- 8 This proxy form (and the original or a certified copy of any power of attorney under which it is signed) must be received by the Company not later than close of business on the date set out below, by mail, hand delivery, or facsimile.

<b>Last time and date for lodgement*</b>	11:00am on Monday, 8 July 2013
<b>By mail</b>	Suite 13 Level 3, 3 Spring Street Sydney, NSW 2000 Attention: Stephen Peterson
<b>By delivery</b>	Suite 13 Level 3, 3 Spring Street Sydney, NSW 2000 Attention: Stephen Peterson
<b>By facsimile</b>	+61 2 8249 4001 Attention: Stephen Peterson

\* Any proxy form received after that time will not be valid.

# Annexure A

Independent Expert's Report

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