



Building Value in Venezuela

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PETROFALCON CORPORATION AND VINCCLER OIL AND GAS, C.A. ANNOUNCE TERM SHEET WITH INTERNATIONAL FINANCIAL CORPORATION

November 15, 2004 – (Caracas, Venezuela) **Vinccler Oil and Gas, C.A.** (Vinccler), the wholly owned operating subsidiary of **PetroFalcon Corporation** (PetroFalcon, symbol PFC on the TSX) today announced an agreement in principle with the International Finance Corporation (IFC), the commercial arm of the World Bank, for the financing of Vinccler's East Falcon Block in Northwestern Venezuela. Closing of the transaction is subject to World Bank Group's Board of Directors approval, PetroFalcon's Board of Directors approval and execution of formal documentation. The total financing provided for under the agreed term sheet is up to US\$ 36 million, which would become available in tranches upon PetroFalcon reaching certain milestones. Interest rates are tied to the six month LIBOR rate. The maturity of the loan varies between six and eight years. The proceeds from the loan will be used to accelerate gas development in the East Falcon Block focusing on the La Vela and Cumarebo fields. Vinccler plans to commence drilling operations before year end and will begin delivering natural gas into Petroleos de Venezuela's S.A. Interconexion Centro Occidente gas pipeline in the first half of 2005. Juan Francisco Clerico, CEO of PetroFalcon said, "We consider the IFC's interest in our project not only an important signal for the emerging gas sector of the Venezuela energy market, but in the technical, economic, environmental and social merits of Vinccler's project. Considering the tremendous hydrocarbon potential and opportunities in Venezuela, Vinccler is committed to increasing its investments in the country." Subject to final approvals, first

disbursements are expected in early 2005. A complete text of IFC's Summary of Project Information (SPI) follows and is also available on the IFC website.

PetroFalcon Corporation is a natural resource company currently engaged in oil and gas operations in Venezuela through its wholly-owned subsidiary, Vinccler Oil and Gas C.A. The common shares of the Corporation trade on the Toronto Stock Exchange with the symbol "PFC"

The Toronto Stock Exchange does not accept responsibility for the adequacy or accuracy of this release.

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Forward looking statements: Except for statements of historical fact, all statements in this press release, without limitation, regarding new projects, acquisitions, future plans and objectives are forward-looking statements which involve risks and uncertainties. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements.

This Summary of Project Information is prepared and distributed to the public in advance of the IFC Board of Directors' consideration of the proposed transaction. Its purpose is to enhance the transparency of IFC's activities, and this document should not be construed as presuming the outcome of the Board decision. Board dates are estimates only.

Summary of Project Information (SPI)

Project number	23450
Project name	Petrofalcon
Country	Venezuela
Sector	Oil, Gas And Mining
Department	Oil, Gas, Mining And Chemicals
Company name	VOG
Environmental category	B
Date SPI disclosed	November 3, 2004
Projected board date	December 3, 2004
Status	Pending Approval

Description of company and purpose of project

Vinccler Oil and Gas, C.A., (VOG or the company) is a Venezuelan company engaged in the exploration and production of oil and gas in Venezuela. VOG is seeking financing for the continued development of the East Falcon Unit, which it operates under a Second Round Operating Service Agreement entered into with the state-owned Petróleos de Venezuela Sociedad Anónima (PDVSA) in 1995. The project involves expanding production from the Cumarebo and La Vela fields in the East Falcon Unit and includes the drilling of development and exploration wells, the installation of gathering systems and the construction of new production facilities in La Vela.

Project sponsor and major shareholders of project company

The project sponsor is Petrofalcon Corporation (Petrofalcon), a public company listed on the Toronto Stock Exchange. Petrofalcon's only operating asset is its wholly owned Venezuelan subsidiary VOG. The key shareholders in Petrofalcon are Vinccler C.A. (20%) and Pacific Falcon (16%). The balance of the shares are widely held. Vinccler C.A. is a leading Venezuelan construction company with a solid track record of operations that has created a local E & P company – VOG. Vinccler C.A. has been active in Venezuela for over 40 years and has successfully completed a number of large infrastructure projects.

Total project cost and proposed IFC investment

The project consists of a phased investment program of \$106 million. IFC proposes to provide loans of up to \$36 million for its own account, including an A Loan, a C Loan and a Standby Facility. The C Loan would bear a variable return component and could also include an option to convert into Petrofalcon's listed stock.

Location of project and description of site

The Cumarebo and La Vela fields are located in the state of Falcon, in western Venezuela.

Project Development Impact and IFC's Role

The interim Country Assistance Strategy (CAS) for Venezuela (December 2002), points out four areas of reform that are the most critical for poverty reduction:

- macroeconomic stability,
- sustainable economic diversification and competitiveness,
- environmentally and socially sustainable development, and
- good governance.

In the interim CAS it was noted that IFC would focus its efforts to help sustain core private sector activities under the current difficult investment climate, by providing financial support to projects that have positive fiscal and/or foreign exchange earning impacts and remain robust under difficult country circumstances. In the near term, this would include projects in the hydrocarbons sector, with increasing focus on diversifying the economy in the medium-term.

The World Bank Group (WBG) Management Response to the Extractive Industries Review (EIR) highlights that WBG's financing support in the oil & gas sector will continue to focus on private investment, with a strong emphasis on local and smaller players as well as on gas projects. Through the project IFC will provide access to capital to VOG, a local oil and gas company seeking to expand its operations in Venezuela, facilitating the emergence of the company as an important local participant in the oil and gas sector. Although Venezuela has the largest oil and gas reserves in Latin America, the sector is dominated by the state oil company PDVSA and foreign companies. Local private companies are at an early stage of development. VOG, with the support of its largest shareholder, Vinccler C.A., a successful Venezuelan construction company, is well-positioned to expand its participation in the oil & gas business. The project will also support the development of Venezuela's domestic gas resources, the gas production from the East Falcon Unit will contribute to decreasing the natural gas shortage in western Venezuela. Finally IFC will also support VOG's efforts to strengthen its environmental and social policies and activities.

IFC plans to monitor the developmental impact of employment, payments made by VOG to local and federal governments, and the ability of the company to successfully deliver its social development programs, such as preventive health care.

- Environmental and Social Benefits

The WBG Management Response to the EIR emphasizes the importance of mitigating environmental and social risk. IFC's involvement in this project will be aligned with this objective by enhancing the company's efforts towards improved environmental and social management. The company's senior management is committed to environmental and social issues, and expressed its intention to leverage IFC's knowledge in these areas to strengthen the company's efforts. IFC is considering a Technical Assistance Project to enhance and formalize the company's environmental, social, health and safety management systems. The project will have a positive environmental impact as the gas production from the East Falcon Unit will displace oil currently being burned at refinery and petrochemical complexes.

- Benefits to the Community

VOG has developed a social program to support the local community. The social aspects of the project are managed by a committee that includes VOG's management from headquarters and staff from the East Falcon Unit. The committee assesses and reviews all social programs with respect to sustainability and priority with the local communities. Recently, VOG has been supporting local communities through the provision of supplies to local schools, the distribution of medicines, and the provision of financial aid for local housing repairs. VOG has requested IFC's assistance in developing a strategy to step up its efforts and help ensure that its community program is coherent and aimed at sustainable impacts. During appraisal IFC met with local representatives who indicated their support for the project. VOG currently provides direct employment to about 39 persons, 35 of them Venezuelan nationals. VOG expects to increase its personnel to 62 by 2005, over 75% of whom will be located at the East Falcon Unit fields.

Petrofalcon is already disclosing the amount of income tax paid in Venezuela through its audited annual financial statements (available to the public at www.sedar.com).

- Benefits to the Government

The project will be a source of tax revenues to both the federal and local governments. According to IFC base case calculations using World Bank oil price forecasts, approximately US\$8 million per year will accrue to the government in the form of income tax and US\$0.8 million will accrue to the municipalities in the form of municipal tax.

- Governance Context

The World Bank Group CAS for Venezuela identifies weak governance, inefficient public sector expenditures and general economic mismanagement as part of the causes leading to a poor economic performance during the last years. To improve governance, the World Bank Group CAS suggests the country should focus on critical areas that include rationalizing the administrative structure; enhancing the efficiency of the civil service; deepening the decentralization process; expanding access to justice; and combating corruption. With regards to transparency in the hydrocarbons sector, the Venezuelan government presents a better track record. PDVSA (the national oil & gas company), discloses in the Form 20-F filed with the SEC (available to the public at www.sec.gov/edgar) the amount of payments to the government in the form of production tax, income tax and dividends. The financial data presented in the form is taken from PDVSA's audited consolidated financial statements. Venezuela is in the process of concluding an Article IV consultation with the IMF.

The revenues contributed from this project to the federal government are very small with respect to the total revenues of the Venezuelan government. Given IFC's role and developmental impact and benefits from the project, to the community and local government, relative to governance risk related to the benefits from this transaction, IFC believes this is a project in which it should invest.

Environmental and social issues - Category B

This is a Category B project according to IFC's Procedure for Environmental and Social Review of Projects because a limited number of specific environmental and social impacts may result which can be avoided or mitigated by adhering to generally recognized performance standards, guidelines or design criteria. The review of this project consisted of appraising technical and environmental /social information submitted by the project

sponsor. The following potential environment, health and safety and social impacts of the projects were analyzed.

- VOG's Environmental and Social Management System;
- VOG's Corporate capacity to review and manage projects in accordance with IFC's environmental and social safeguard policies;
- Environmental conditions of existing facilities and development of Environmental and Social Impact Assessments;
- Water supply and solid waste disposal;
- Noise from drilling and operations;
- Occupational health and safety issues including fire protection, emergency response, and control of employees exposure to noise and dust;
- Review of Environmental Impact Assessment for the first stage of the Interconexión Centro-Occidental (ICO) pipeline that will be utilized by the project as well as a high level review of the remainder of the pipeline; and
- Resettlement of people or economic dislocation caused by land acquisition for the project.

The sponsor has presented plans to address these impacts to ensure that the proposed project will, upon implementation of the specific agreed measures, comply with the environmental and social laws and regulations in Venezuela as well as the World Bank/IFC environment and social policies and environmental, health and safety guidelines. The information about how the sponsor will address these potential impacts is detailed in the Environmental Review Summary (ERS) disclosed in the World Bank InfoShop.

To view the environmental documents for this project, **Error! Hyperlink reference not valid.**

Location of environmental documents in locally affected community

Campo Cumarebo
Carretera Moron – Coro
Sector Santa Rita
Estacion de Flujo
(3 Km de Empresa Holcim)

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