

# **PetroFalcon Corporation**

Interim Consolidated Financial Statements  
(Unaudited)  
**September 30, 2006, and 2005**  
(expressed in U.S. dollars)

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The accompanying unaudited interim consolidated financial statements of PetroFalcon Corporation for the three months ended September 30, 2006, and 2005, have been prepared by Management and approved by the Audit Committee.

**PetroFalcon Corporation**  
Interim Consolidated Balance Sheets  
(Unaudited)

(expressed in U.S. dollars)

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	11,074,882	9,297,444
Accounts receivable (note 4)	14,544,123	14,378,285
Income tax recoverable	1,939,883	412,423
Future income tax asset (note 10)	57,765	1,082,375
	<hr/>	<hr/>
	27,616,653	25,170,527
<b>Property and equipment</b>	<hr/>	<hr/>
	49,457,100	46,004,470
	<hr/>	<hr/>
	77,073,753	71,174,997
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	9,348,385	4,801,490
Short-term debt (note 8)	11,779,070	10,081,395
	<hr/>	<hr/>
	21,127,455	14,882,885
Future income tax liability	-	769,833
Long-term debt (note 8)	4,000,000	8,000,000
Provision for asset retirement obligation	552,769	522,557
	<hr/>	<hr/>
	25,680,224	24,175,275
<b>Shareholders' equity</b>		
<b>Capital stock (note 7)</b>	47,547,584	40,797,542
<b>Warrants (note 7)</b>	118,571	118,571
<b>Contributed surplus (note 7)</b>	5,105,749	3,268,067
<b>Retained earnings (accumulated deficit)</b>	<hr/>	<hr/>
	(1,378,375)	2,815,542
	<hr/>	<hr/>
	51,393,529	46,999,722
	<hr/>	<hr/>
	77,073,753	71,174,997

# PetroFalcon Corporation

## Interim Consolidated Statements of Operations and Retained Earnings (Unaudited)

(expressed in U.S. dollars)

	Nine months ended September 30,		Three months ended September 30,	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Revenue</b>				
Oil and gas	8,836,479	8,069,274	5,707,450	3,055,023
Royalties	(1,902,293)	-	(1,902,293)	-
Special advantage tax (note 1)	(348,992)	-	(348,992)	-
	6,585,194	8,069,274	3,456,165	3,055,023
<b>Expenses</b>				
Operating and maintenance	2,975,477	2,111,880	1,834,530	804,754
General and administrative	1,834,976	2,538,468	470,405	703,063
Amortization, depletion and accretion	1,606,833	1,156,606	1,011,447	362,349
Stock-based compensation	1,889,752	1,423,000	612,603	526,000
	8,307,038	7,229,954	3,928,985	2,396,166
<b>Income (loss) before other income (expenses) and income tax</b>	(1,721,844)	839,320	(472,820)	658,857
<b>Other income (expenses)</b>				
Interest on bank loans	(1,718,896)	(547,978)	(430,846)	(286,887)
Interest on bank deposits	203,874	212,774	94,148	57,910
Gain on financing transactions (note 6)	-	2,149,941	-	793,969
Gain (loss) on foreign exchange	86,779	117,344	(2,217)	63,272
Other income (note 14)	402,613	-	402,613	-
<b>Income (loss) before income tax</b>	(2,747,474)	2,771,401	(409,122)	1,287,121
Income tax (note 10)	(1,158,417)	(634,148)	(616,028)	(200,000)
Future income tax	(288,027)	-	(288,027)	-
<b>Net income (loss)</b>	(4,193,918)	2,137,253	(1,313,177)	1,087,121
<b>Retained earnings (accumulated deficit) – Beginning of period</b>	2,815,543	1,805,939	(65,198)	2,856,071
<b>Retained earnings (accumulated deficit) – End of period</b>	(1,378,375)	3,943,192	(1,378,375)	3,943,192
<b>Weighted average number of common shares outstanding</b>	79,901,083	76,352,318	82,160,758	77,519,741
<b>Basic and diluted earnings (loss) per share (note 13)</b>	(0.05)	0.03	(0.02)	0.01

# PetroFalcon Corporation

## Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in U.S. dollars)

	Nine months ended September 30,		Three months ended September 30,	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(4,193,918)	2,137,253	(1,313,178)	1,087,121
Items not affecting cash				
Amortization, depletion and accretion	1,606,833	1,156,606	1,011,447	362,349
Foreign exchange	(33,250)	-	1,146	-
Other	174,102	-	174,102	-
Stock-based compensation	1,889,752	1,423,000	612,603	526,000
Future income tax	288,027	200,000	288,027	200,000
	(268,454)	4,916,859	774,147	2,175,470
Net change in non-cash working capital items				
Accounts receivable	1,748,958	(2,969,980)	(8,123,731)	(697,011)
Accounts payable and accrued liabilities	2,055,412	(997,932)	4,849,703	(1,904,231)
Income tax payable	(698,471)	(126,783)	(226,946)	(237,989)
	2,837,445	822,164	(2,726,827)	(663,761)
<b>Financing activities</b>				
Proceeds from private placement	-	4,000,000	-	-
Warrants (note 7)	-	118,571	-	-
Restricted cash	-	2,600,000	-	2,825,000
Proceeds from (repayment of) bank loans	1,697,675	9,046,572	1,709,303	(2,104,651)
Proceeds received on exercise of share options and warrants	117,854	150,697	-	20,993
	1,815,529	15,915,840	1,709,303	741,342
<b>Investing activities</b>				
Purchase of West Falcon Hydrocarbons, S.R.L (note 5)	(2,016,214)	-	-	-
Acquisition of property and equipment	(2,422,625)	(26,232,557)	(650,117)	(2,447,904)
Movement in non-cash working capital from investing activities	1,563,303	3,107,685	1,724,469	(5,405,731)
	(2,875,536)	(23,124,872)	1,074,352	(7,853,635)
<b>Net increase (decrease) in cash during the period</b>	1,777,438	(6,386,868)	56,828	(7,776,054)
<b>Cash – Beginning of period</b>	9,297,444	20,445,802	11,018,054	21,834,988
<b>Cash – End of period</b>	11,074,882	14,058,934	11,074,882	14,058,934
<b>Supplementary information</b>				
Interest paid, net	1,244,838	514,766	131,441	179,495
Income tax paid	898,075	330,609	109,842	-

# PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

**(Unaudited) For the three and nine months ended September 30, 2006 and 2005**

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(expressed in U.S. dollars)

## 1 Description of business

PetroFalcon Corporation (“PetroFalcon” or the “Corporation”) is engaged in the exploration, development, production and management of oil and natural gas properties through its indirect wholly-owned subsidiary, Vinccler Oil and Gas, C.A. (“Vinccler Venezuela”), which owns 40% of the joint venture (“Empresa Mixta”), PetroCumarebo, S.A. (“PetroCumarebo”). PetroFalcon’s revenues for the first three months ended March 31, 2006, were derived from the East Falcon Block under the Operating Service Agreement (“East Falcon OSA”) with Petróleos de Venezuela, S.A. (“PDVSA”), the state oil company of Venezuela. Effective March 21, 2006, Vinccler Venezuela completed the acquisition of West Falcon Hydrocarbons, S.R.L (“West Falcon”), a subsidiary of Samson International LLC, which owned a separate OSA for the West Falcon Block (“West Falcon OSA”).

On March 31, 2006, Vinccler Venezuela reached an initial agreement with the Venezuelan government with respect to its oil and natural gas rights in Venezuela. Vinccler Venezuela signed a Memorandum of Understanding (“MOU”) with PDVSA and its affiliated entity, Corporación Venezolana del Petróleo (“CVP”), to create the Empresa Mixta (later named PetroCumarebo), which would hold all operating rights to the East Falcon Block and West Falcon Block. The formation of the Empresa Mixta transfers Vinccler Venezuela’s interests in the East Falcon Block and West Falcon Block, covering more than 800,000 acres in northwestern Venezuela, into a single development entity, and it gives the Empresa Mixta the exclusive right to produce and sell oil and natural gas from the designated area of operations.

On September 29, 2006, Vinccler Venezuela and PDVSA/CVP executed the Empresa Mixta Conversion Agreement (“Conversion Contract”), which created PetroCumarebo and confirmed the ownership structure as 40% held by Vinccler Venezuela and 60% held by CVP. In accordance with the MOU, the Conversion Contract also established the following general terms for the Empresa Mixta:

- The effective date of PetroCumarebo is April 1, 2006;
- PetroCumarebo pays a royalty of 33.3% on oil and natural gas production;
- PetroCumarebo has an applicable income tax rate of 50%;
- PetroCumarebo will pay a “special advantage” tax, which requires that if in any year the aggregate amount of royalties, taxes and certain other contributions is less than 50% of the gross value of the hydrocarbons produced, PetroCumarebo must pay the Venezuelan government the difference;
- PetroCumarebo has the exclusive right to explore, develop and produce oil and natural gas in its area of operations (838,000 acres) for a term of 20 years;

# PetroFalcon Corporation

## Notes to Interim Consolidated Financial Statements

### (Unaudited) For the three and nine months ended September 30, 2006 and 2005

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(expressed in U.S. dollars)

- Vinccler Venezuela expects to receive dividends from PetroCumarebo in US dollars on a quarterly basis derived from its 40% participation; and
- Vinccler Venezuela will be responsible for 40% of PetroCumarebo's approved capital expenditure budget (currently \$40.7 million for 2006) and 40% of the operating expenses.

On October 24, 2006, PetroCumarebo was legally incorporated as the joint venture entity described in the Conversion Contract. As a result, the Corporation has proportionately consolidated the results of PetroCumarebo from April 1, 2006 to September 30, 2006, in the September 30, 2006, financial statements.

## 2 Measurement uncertainty

During the second and third quarters of 2006, the Corporation delivered oil and natural gas to PDVSA on behalf of PetroCumarebo. The Conversion Contract provides formulae to price deliveries of crude oil and natural gas. In accordance with the terms of the Conversion Contract, the Corporation's share of PetroCumarebo's revenues and accounts receivable, being \$5,707,450, have been recorded for the period April 1, 2006, to September 30, 2006. As of November 14, 2006, no cash has been received by PetroCumarebo from PDVSA related to this revenue. While PDVSA has paid the royalties, operating and capital expenditures for this period, it is reasonably possible that the amounts receivable under the terms of the Conversion Contract may not be paid by PDVSA.

## 3 Significant accounting policies

The interim consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. These interim consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2005.

All royalty entitlements and "special advantage" taxes are reflected as reductions in revenue, and are accrued as the Corporation becomes liable for the payments.

Ownership in and results of operations from Vinccler Venezuela's interest in the PetroCumarebo joint venture is recorded under the proportionate consolidation method whereby only Vinccler Venezuela's 40% share of the assets, liabilities, revenue and expenses is recognized.

## 4 Accounts receivable

At September 30, 2006, PetroFalcon had \$14.5 million (2005 - \$14.4 million) in accounts receivable of which \$2.3 million represents credit for value added taxes (VAT) incurred as a result of the Corporation's expenditures as of September 30, 2006; \$5.7 million which represents the reimbursements for expenses and capital investments incurred by Vinccler Venezuela related to PetroCumarebo's operations as of September 30, 2006; and \$5.9 million which represents

# PetroFalcon Corporation

## Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and nine months ended September 30, 2006 and 2005

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(expressed in U.S. dollars)

Vinccler Venezuela's 40% share in PetroCumarebo's oil and gas revenues before royalties as of September 30, 2006. Vinccler Venezuela will continue to pay 100% of the operating expenses and capital investments for the East Falcon Block and West Falcon Block, with subsequent reimbursements expected from PDVSA (see note 1) until shortly after the incorporation of PetroCumarebo, which occurred on October 24, 2006. As of September 30, 2006, there was also a receivable of \$402,613 related to the settlement of a legal action against previous shareholders of the Corporation, which was paid on November 1, 2006 (see note 14).

### 5 Acquisition of West Falcon

Effective March 21, 2006, Vinccler Venezuela completed the acquisition of the West Falcon OSA from a subsidiary of Samson International, LLC. The purchase price consisted of a cash payment of \$2.55 million. In addition, PetroFalcon issued 1.75 million common shares of the Corporation (see note 7).

The business combination was accounted for using the purchase method of accounting. The following table summarizes the purchase price allocation for the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The following are estimates and are subject to refinement.

Cash	533,859
Accounts receivable	1,914,796
Property, plant and equipment	3,263,112
Income tax recoverable	828,989
Accounts payable	(578,181)
Asset retirement obligations	<u>(850,000)</u>
<b>Total net assets acquired</b>	<b><u><u>5,112,575</u></u></b>

Following the acquisition, Vinccler Venezuela owned 100% of the West Falcon OSA, which was contributed to PetroCumarebo as of April 1, 2006, pursuant to the Conversion Contract (see note 1).

### 6 Gain on financing transactions

During the nine months ended September 30, 2005, the Corporation's subsidiary, Vinccler Venezuela, realized a foreign exchange gain of \$2,149,941 as a result of the acquisition and disposal of US dollar denominated Venezuelan government bonds. During the three months ended September 30, 2005, Vinccler Venezuela, realized a foreign exchange gain of \$793,969.

# PetroFalcon Corporation

## Notes to Interim Consolidated Financial Statements

**(Unaudited) For the three and nine months ended September 30, 2006 and 2005**

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(expressed in U.S. dollars)

No gain on financing transactions was recorded during the three or nine months ended September 30, 2006.

### 7 Capital stock

#### Authorized

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

#### Issued

	<b>Number of Shares</b>	<b>Amount \$</b>
As at December 31, 2005	77,631,407	40,797,542
Issue of shares (note 5)	1,750,000	2,562,501
Conversion of long term debt (note 7)	2,639,651	4,000,000
Exercise of share options	149,700	135,471
Transfer from contributed surplus	-	52,070
	<hr/>	<hr/>
As at September 30, 2006	82,170,758	47,547,584

#### Common stock

The common shares of PetroFalcon are all of the same class, have voting rights and entitle shareholders to receive dividends as and when declared by the Board of Directors. In the event of a liquidation, dissolution or winding up, the shareholders are entitled to receive equal distributions of net assets or any dividends that may be declared.

# PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

**(Unaudited) For the three and nine months ended September 30, 2006 and 2005**

(expressed in U.S. dollars)

## Stock option plan

A summary of the status of PetroFalcon's stock option plan and changes during the periods is presented below:

	September 30, 2006		September 30, 2005	
	Share Options	Weighted- average exercise price CDN\$	Share Options	Weighted- average exercise price CDN\$
Outstanding – December 31	8,896,194	1.86	7,420,000	1.67
Granted	1,775,000	1.75	1,601,500	2.39
Exercised	(149,700)	1.03	(269,906)	0.69
Cancelled	(265,000)	1.91	(45,400)	1.98
Outstanding – September 30	10,256,494	1.85	8,706,194	1.92
Options exercisable – September 30	6,749,314	1.60	4,393,361	1.14

A summary of stock options outstanding at September 30, 2006, is set out below:

Exercise price	Outstanding stock options		Exercisable stock options
	Number	Weighted average remaining contractual life	Number
\$0.50	250,000	1.31 years	250,000
\$0.72	100,000	0.37 years	100,000
\$1.00	3,298,654	6.95 years	3,205,320
\$1.13	75,000	9.88 years	25,000
\$1.30	13,340	7.25 years	6,672
\$1.45	40,000	9.75 years	-
\$1.55	480,000	9.46 years	235,000
\$1.93	980,000	9.50 years	490,000
\$2.05	30,000	9.08 years	-
\$2.20	290,000	7.75 years	193,332
\$2.35	1,870,000	7.70 years	1,246,663
\$2.38	300,000	9.00 years	-
\$2.39	1,529,500	8.79 years	663,994
\$3.28	1,000,000	8.21 years	333,333
	10,256,494		6,749,314

# PetroFalcon Corporation

## Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and nine months ended September 30, 2006 and 2005

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(expressed in U.S. dollars)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk-free interest rate	3.33%
Expected volatility	60%
Dividends yield rate	0.00%
Weighted average expected life of options	5 years

### Issue of warrants

On June 28, 2005, PetroFalcon issued 100,000 warrants with an exercise price of CDN\$2.17 per warrant in connection with the International Finance Corporation financing (see note 8). There were no proceeds received by the Corporation from the issue of warrants. Each warrant is exercisable into one common share of PetroFalcon until June 30, 2007. As of September 30, 2006, these warrants remained outstanding.

### West Falcon equity payment

On March 21, 2006, PetroFalcon issued 1,750,000 common shares at a price of CDN\$1.71 per share as part of the purchase of West Falcon (see note 5) at a total cost of CDN\$2.984 million (\$2.563 million).

### Conversion of long-term debt

On April 20, 2006, PetroFalcon issued 2,639,651 common shares at a price of CDN\$1.77 per share as a result of the conversion of \$4,000,000 of long-term debt (see note 8).

## 8 Debt

The Corporation's debt consists of the following:

	<u>September 30,</u>	
	<u>2006</u>	<u>2005</u>
	\$	\$
Short-term local bank loans bearing interest at an average of 13%, due within 90 days	11,779,070	3,872,093
Due to International Finance Corporation bearing interest at Libor plus 1% (5.44%), with maturity in 2011	4,000,000	8,000,000
	<u>15,779,070</u>	<u>11,872,093</u>
Short -term	11,779,070	3,872,093
Long -term	<u>4,000,000</u>	<u>8,000,000</u>

# PetroFalcon Corporation

## Notes to Interim Consolidated Financial Statements

### (Unaudited) For the three and nine months ended September 30, 2006 and 2005

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(expressed in U.S. dollars)

Short-term local bank loans for \$11,779,070 (in the local currency) consisted of Vinccler Venezuela's lines of credit with Venezuelan banks to meet its short-term working capital and local currency financing.

On June 26, 2005, the Corporation reached an agreement with the International Finance Corporation ("IFC"), the private sector arm of the World Bank, pursuant to which the IFC would provide up to \$36 million in loans ("A" and "C" Loans) to Vinccler Venezuela for the development of the Corporation's oil and gas properties. During the second quarter of 2005, the IFC disbursed \$12 million from the "C" Loan. Principal repayments on the "C" Loan are due in 2011. Interest is payable semi-annually on May 15 and November 15 at the London Inter Bank Offered Rate ("Libor") plus 1% for the "C" Loan from June 27, 2005, the date of the full disbursement of the "C" loan. IFC is also entitled to receive three percent of Vinccler Venezuela's cash flow ("Additional Interest"), as long as it does not exceed 10% per annum of the principal amount of the "C" loan on an aggregate accumulated basis. On April 5, 2006, the IFC provided notice pursuant to the terms of the "C" Loan Agreement of its intention to convert \$4 million of its outstanding loan into common shares of PetroFalcon Corporation. The IFC received 2,639,651 shares at a price of CDN \$1.77 per share based on the market weighted average share price over the previous 20 trading days to the notice date. The IFC has now converted \$8 million of the original \$12 million disbursed in 2005 into common shares of PetroFalcon Corporation. With this conversion, the remaining outstanding principal due to IFC is \$4 million. On October 12, 2006, Vinccler Venezuela gave 30-day notice to the IFC in order to cancel the "A" Loan option, effective November 11, 2006.

## 9 Related party transactions and balances

Pacific Oil and Gas, LLC and Venezolana de Inversiones y Construcciones Clerico, C.A. are controlled by officers of PetroFalcon. For the three months ended September 30, 2006, the Corporation paid to Pacific Oil and Gas, LLC, controlled by PetroFalcon's Chief Financial Officer, Clarence Cottman and the Corporation's President, William Gumma, \$210,000 for professional services (\$210,000 for the three months ended September 30, 2005). For the nine months ended September 30, 2006, the Corporation paid to Pacific Oil and Gas, LLC, \$630,000 (\$630,000 for the nine months ended September 30, 2005).

PetroFalcon also receives construction services provided by Venezolana de Inversiones y Construcciones Clerico, C.A., an independent operating construction company controlled by the Corporation's Chairman of the Board and Chief Executive Officer, Juan Francisco Clerico. During the three months ended September 30, 2006, PetroFalcon did not receive services from Venezolana de Inversiones y Construcciones Clerico, C.A. ("Vinccler Construction") (\$261,858 during the three months ended September 30, 2005). During the nine months ended September 30, 2006, the Corporation was invoiced \$11,669 for construction services (\$1.18 million for the nine months ended September 30, 2005). On August 25, 2006, Vinccler Construction paid on behalf of Vinccler Venezuela the amount of \$350,000 to purchase the data package for the Delta Caribe offshore natural gas bid process in Venezuela. As of September 30, 2006, Vinccler Venezuela has not repaid Vinccler Construction.

# PetroFalcon Corporation

## Notes to Interim Consolidated Financial Statements

### **(Unaudited) For the three and nine months ended September 30, 2006 and 2005**

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(expressed in U.S. dollars)

These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### **10 Income tax**

During the three months ended September 30, 2006, the Corporation recorded an income tax expense of \$616,028 mainly related to its 40% interest in PetroCumarebo (\$200,000 during the three months ended September 30, 2005). During the nine months ended September 30, 2006, the Corporation recorded a current income tax expense of \$1,158,417 (\$634,148 during the nine months ended September 30, 2005).

During 2005, Vinccler Venezuela received tax assessments from the National Integrated Customs and Tax Administration Service ("SENIAT"), the Venezuelan tax authorities, with respect to the income tax returns for the years ended December 31, 2001, to 2004 for a total of \$3.3 million (Bs. 7.7 billion), payable in nominal bolivars (the local currency). The revised tax assessment was mainly due to the SENIAT's reinterpretation of Vinccler Venezuela's business purpose. The SENIAT stresses that under its income tax laws, Vinccler Venezuela is an oil and gas producing company instead of an operating service company. Thus, the income tax expense for the audited years had to be recalculated at the rate of 50% (rather than the previous rate of 34%). On January 26, 2006, Vinccler Venezuela filed a discharge claim with SENIAT. During the three months ended March 31, 2006, Vinccler Venezuela received the final settlement resulting in additional income tax expense of \$542,389 for the years ended December 31, 2001, to 2004. During the nine months ended September 30, 2006, the SENIAT performed a review of Vinccler Venezuela's income tax expense for the fiscal year ended December 31, 2005. The review concluded that no amount was due to the SENIAT.

During the three months ended September 30, 2006, the corporation realized a future income tax asset of \$795,857 related to Vinccler Oil and Gas Corporation and PetroFalcon Corporation's carry-forward losses and reduced Vinccler Venezuela's future income tax asset of \$262,003. In addition, Vinccler Venezuela reversed future income tax liability of \$769,833 related to a timing difference in the financial and fiscal treatment of fixed assets transferred to PetroCumarebo.

#### **11 Financial instruments**

The Corporation is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. dollar and Venezuelan bolivar/U.S. dollar exchange rates. The Corporation, where appropriate, utilizes financial instruments to manage its exposure to these risks. During the three and nine months ended September 30, 2006, the Corporation did not hold or issue any derivative financial instruments. The Corporation's financial assets and liabilities as at September 30, 2006, included cash, accounts receivable and accounts payable. Fair values approximate carrying values unless otherwise stated.

Additionally, the Corporation's financial instruments include long-term debt that bears interest at market-related rates, which approximate fair value.

# PetroFalcon Corporation

## Notes to Interim Consolidated Financial Statements

**(Unaudited) For the three and nine months ended September 30, 2006 and 2005**

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(expressed in U.S. dollars)

### 12 Economic dependence

The Corporation depends on quarterly dividend payments derived from its 40% interest in PetroCumarebo. Any material failure of PetroCumarebo to be paid for the oil and gas product delivered to PDVSA would affect PetroCumarebo's ability to pay dividends, which would have a material adverse effect on the Corporation's business, financial condition and results of operations.

### 13 Earnings per share

	Nine months ended September 30,		Three months ended September 30,	
	2006	2005	2006	2005
Net (loss) income	(\$4,193,918)	\$2,137,253	(\$1,313,178)	\$1,087,121
Weighted average number of common shares	79,901,083	76,352,318	82,160,758	77,519,741
Stock options and warrants*	3,896,994	7,806,194	3,723,654	4,011,694
Basic (loss) earnings per share	(\$0.05)	\$0.03	(\$0.02)	\$0.01
Diluted (loss) earnings per share*	(\$0.05)	\$0.03	(\$0.02)	\$0.01

\* The calculation of diluted earnings per common share for the nine months periods excludes 6,459,500 options and warrants outstanding during 2006 and 900,000 options outstanding during 2005, as these would have been anti-dilutive to the calculation. The three months ended earnings per share excludes 6,632,840 options and warrants outstanding in 2006 and 4,694,500 options in 2005.

### 14 Subsequent events

On October 24, 2006, the Empresa Mixta, PetoCumarebo, S.A., was legally incorporated with 40% held by Vinccler Venezuela and 60% held by CVP.

Effective October 30, 2006, PetroFalcon's indirect wholly-owned subsidiary, West Falcon Hydrocarbons, S.R.L, was merged into Vinccler Venezuela, and West Falcon Hydrocarbons, S.R.L ceased to exist.

On November 1, 2006, PetroFalcon received a final settlement payment from previous shareholders for CDN \$450,000 relating to funds advanced to previous senior management for a residence and property purchased in the Czech Republic and repaid in accordance with a settlement agreement.