

PetroFalcon Corporation
Annual Information Form
For the Year Ended December 31, 2008

Dated: March 27, 2009

TABLE OF CONTENTS

THE CORPORATION	1
Name, Address and Incorporation	1
Intercorporate Relationships	1
GENERAL DEVELOPMENT OF THE BUSINESS	2
Business of the Corporation	2
Three Year History	2
Significant Acquisitions.....	8
Narrative Description of the Business of the Corporation.....	8
RISK FACTORS	9
Dependence on PetroCumarebo and Baripetrol.....	10
Oil and Gas Exploration, Development and Production - General.....	11
Oil and Gas Exploration, Development and Production - Venezuela.....	11
Depletion of Reserves	12
Operations Only in Venezuela	12
Risks of Foreign Operations Generally.....	12
Monetary Correction, Effects of Exchange Controls and Devaluation.....	12
The Corporation is a Holding Corporation	13
Uncertainty of Reserve Estimates	13
Prices and Markets for Crude Oil, Condensate and Natural Gas	14
Substantial Capital Requirements, Liquidity	14
Issuance of Debt.....	14
Competition.....	14
Governmental Regulation	15
Environmental Regulation	15
Reliance on Contractors and Key Employees.....	15
Enforceability of Actions.....	15
Conflicts of Interest.....	16
INDUSTRY CONDITIONS	16
Government Regulation	16
Pricing and Marketing - Oil	16
Pricing and Marketing - Natural Gas	16
NOTE REGARDING RESERVES DATA AND OTHER OIL AND GAS INFORMATION FOR EACH OF PETROCUMAREBO AND BARIPETROL	17
Mixed Company Accounting.....	17
Crude Oil, Natural Gas and Natural Gas Liquids Reserves	17
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION FOR PETROCUMAREBO	18
Reserves Data Relating to PetroCumarebo	18
Pricing Assumptions	22
Reconciliation of Changes in Reserves.....	23
ADDITIONAL INFORMATION RELATING TO RESERVES DATA OF PETROCUMAREBO	24
Undeveloped Reserves.....	24

Significant Factors or Uncertainties Affecting Reserves Data	26
Future Development Costs.....	26
Additional Information Concerning Abandonment and Reclamation Costs	27
OIL AND GAS INFORMATION FOR PETROCUMAREBO.....	27
Oil and Gas Properties	28
PetroCumarebo 2008 Capital Expenditures.....	31
Exploration and Development Activities.....	32
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION FOR BARIPETROL	34
Reserves Data Relating to Baripetrol.....	34
Pricing Assumptions	38
Reconciliation of Changes in Reserves.....	38
ADDITIONAL INFORMATION RELATING TO RESERVES DATA OF BARIPETROL.....	39
Undeveloped Reserves.....	39
Significant Factors or Uncertainties Affecting Reserves Data	41
Future Development Costs.....	41
Additional Information Concerning Abandonment and Reclamation Costs	42
OIL AND GAS INFORMATION FOR BARIPETROL.....	42
Oil and Gas Properties	42
Baripetrol 2008 Capital Expenditures.....	44
ADDITIONAL INFORMATION.....	44
Forward Contracts.....	44
Income Tax Horizon	45
2009 CAPITAL EXPENDITURES	45
DIVIDENDS OR DISTRIBUTIONS	47
DESCRIPTION OF CAPITAL STRUCTURE.....	47
MARKET FOR SECURITIES	48
PRIOR SALES	49
ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER.....	49
DIRECTORS AND OFFICERS	50
Corporate Cease Trade Orders.....	51
Penalties or Sanctions	51
Bankruptcies	52

CONFLICTS OF INTEREST	52
INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	52
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	52
AUDIT COMMITTEE.....	53
Audit Committee Charter.....	53
Composition of the Audit Committee.....	53
Relevant Education and Experience	53
Pre-approval Policies and Procedures.....	54
External Auditor Service Fees (By Category)	54
REGISTRAR AND TRANSFER AGENT	54
INTERESTS OF EXPERTS	54
ADDITIONAL INFORMATION.....	54
APPENDIX A DEFINITIONS USED FOR RESERVE CATEGORIES	A-1
APPENDIX B FORM 51-101F2 REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR.....	B-1
APPENDIX C FORM 51-101F3 REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION	C-1
APPENDIX D AUDIT COMMITTEE MANDATE.....	D-1

ABBREVIATIONS

Oil and Natural Gas Liquids

bbl	Barrels
Mbbl	thousand barrels
MMbbl	million barrels
bbl/d	barrels of oil per day
°API	a specific gravity scale developed by the American Petroleum Institute (API) for measuring the relative density of various petroleum liquids, expressed in degrees
NGL	natural gas liquids
stb	standard stock tank barrels
Mstb	thousand standard stock tank barrels

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
Btu	British thermal units
Bcf	billion cubic feet

Other

boe	barrels of oil equivalent converting six Mcf of natural gas to one barrel of oil (6:1)
boe/d	barrels of oil equivalent per day
Mboe	thousands of barrels of oil equivalent
MMboe	millions of barrels of oil equivalent
M\$	thousands of dollars
MM\$	millions of dollars
NPV	net present value
psi	pounds-force per square inch
WTI	West Texas Intermediate

Note: For the purposes of this document, natural gas has been converted to a barrel of oil equivalent using a conversion rate of six thousand cubic feet equal to one barrel (6:1) based on an energy equivalency conversion method primarily applicable at the burner tip and which does not represent a value equivalency at the wellhead. This conversion to boe may be misleading, particularly if used in isolation.

CURRENCY

In this Annual Information Form and the audited financial statements of the Corporation, unless otherwise noted, all dollar amounts are expressed in United States dollars (“**USD**”).

In 2007, the Company reviewed the accounting for foreign currency transactions in Venezuela due to the increasing spread between the official rate and the implied market rate in Venezuela. It was determined that as a consequence of the rapid decline in the valuation of the Venezuelan Bolivar (“**Bs**”) as reflected in the implied market for foreign currencies in Venezuela that the method of translation from Bolivars to US dollars using the official rate was no longer appropriate. In addition, effective January 1, 2008, the currency unit of the monetary system of Venezuela dropped three zeros, and all amounts are now denominated in a new smaller scale of Bolivars. For the years ended December 31, 2008, and 2007, the Bolivar balances were translated at implied market rates of 5.70 Bs/USD and 5.74 Bs/USD, respectively.

In this AIF, CDN\$ means Canadian dollars; \$, USD and US\$ means US dollars; and Bolivars and Bs are used interchangeably herein to refer to the Venezuelan currency, as adjusted January 1, 2008.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

Certain information and statements contained in this AIF and in certain documents incorporated by reference herein, constitute forward-looking information within the meaning of applicable Canadian securities legislation. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment that, based on certain estimates and assumptions, the resources and reserves described can be profitably produced in the future.

Forward-looking information and statements are included throughout this AIF (and the documents incorporated by reference herein), including under the headings "*General Development of the Business*", "*Risk Factors*", "*Industry Conditions*", "*Statement of Reserves Data and Other Oil and Gas Information for PetroCumarebo*", "*Additional Information Relating to Reserves Data of PetroCumarebo*", "*Oil and Gas Information for PetroCumarebo*", "*Statement of Reserves Data and Other Oil and Gas Information for Baripetrol*", "*Additional Information Relating to Reserves Data of Baripetrol*", "*Oil and Gas Information for Baripetrol*" and "*2009 Capital Expenditures*" and include, but are not limited to, statements pertaining to the following:

- the quantity of reserves;
- oil and natural gas production levels;
- capital expenditure programs;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the Corporation's ability to raise capital and to expand its business through acquisitions and development;
- treatment under government regulatory and taxation regimes; and
- accounting policies and treatment.

These statements and information involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Corporation believes that the expectations reflected in forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in, or incorporated by reference into, this AIF should not be unduly relied upon. The Corporation's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking information and statements, and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information and statements will transpire or occur, or if any of them do so, what benefits will be derived therefrom. These risks, uncertainties and other factors are set out below and elsewhere in this AIF and include, among others:

- the ability to receive dividends from PetroCumarebo and/or Baripetrol;
- changes to existing agreements with government bodies;
- volatility in market prices for oil and natural gas;
- liabilities and risks inherent in oil and natural gas operations;
- uncertainties associated with estimating reserves of PetroCumarebo and Baripetrol;

- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems; and
- other factors, many of which are beyond our control.

The forward-looking statements and information contained herein, speak only as of the date of this AIF or as of the date specified in the documents incorporated by reference herein, as the case may be. Except as required by law, PetroFalcon and its subsidiary do not intend, and do not assume any obligation, to update forward-looking information or statements contained herein. In the event subsequent events prove past statements about current trends to be materially different, we may issue a news release explaining the key reasons for the difference but are under no obligation to do so.

The forward-looking information and statements contained in this AIF (or the documents incorporated by reference herein) are expressly qualified by this cautionary statement.

GLOSSARY

In addition to any terms that are defined in this Annual Information Form, unless otherwise stated or unless there is something in the subject matter or context inconsistent therewith:

“**ABCA**” means the *Business Corporations Act* (Alberta), R.S.A. 2000 c.B-9, as amended, including all regulations promulgated thereunder;

“**AIF**” means this Annual Information Form as at March 27, 2009;

“**Baripetrol**” means Baripetrol, S.A., a style of corporate entity known as a mixed company, created by the arrangement between CVP, Tecpetrol, Perenco and Lundin Venezuela;

“**Cardon III Block**” means the area covering approximately 218,000 offshore acres in the Gulf of Venezuela under a gas license to Chevron;

“**Cardon IV Block**” means the area covering approximately 228,000 offshore acres in the Gulf of Venezuela under a gas license to Repsol and Eni;

“**Chevron**” means Chevron Corporation, an American integrated oil and gas company with a gas license for the Cardon III Block;

“**Colon Block**” means the area covering approximately 297,000 acres in western Venezuela operated by Baripetrol;

“**Conversion Contracts**” means the following contracts: (i) contract signed on September 29, 2006, among Vinccler Venezuela, West Falcon Samson Hydrocarbons, S.R.L. and CVP, which identified PetroCumarebo and confirmed the ownership structure as 40% held by Vinccler Venezuela and 60% held by CVP; and (ii) contract signed on July 11, 2006, among Lundin Venezuela, Tecpetrol, Perenco and CVP, which identified Baripetrol and confirmed the ownership structure as 5% held by Lundin Venezuela, 17.5% held by Tecpetrol, 17.5% held by Perenco and 60% held by CVP;

“**Corporation**”, “**Company**” or “**PetroFalcon**” means PetroFalcon Corporation, a corporation incorporated under the laws of Alberta and unless the context otherwise requires, references herein to the Corporation, the Company or PetroFalcon include PetroFalcon Corporation and Vinccler Venezuela on a consolidated basis;

“**CVP**” means Corporacion Venezolana del Petroleo, an affiliated entity of PDVSA and the 60% partner in each of PetroCumarebo and Baripetrol;

“**East Falcon Block**” means the area covering approximately 400,000 acres in Venezuela that was previously operated by Vinccler Venezuela pursuant to the terms in the East Falcon OSA and is now controlled by PetroCumarebo;

“**East Falcon OSA**” means the operating service agreement dated July 3, 1995, as amended, between Vinccler Venezuela and PDVSA, relating to the East Falcon Block in Venezuela and when referred to herein includes the Gas Addendum;

“**Eni**” means Eni SpA, an Italian integrated oil and gas company with a 50% interest in the Cardon IV Block;

“**Gas Addendum**” means the addendum to the East Falcon OSA entered into between Vinccler Venezuela and PDVSA, on May 27, 2005;

“**Huddleston**” means Huddleston & Company Inc., the Corporation’s independent petroleum and geological engineers located in Houston, Texas;

“**Huddleston Reports**” means the independent reserves reports in relation to the PetroCumarebo East Falcon Block and West Falcon Block and the Baripetrol Colon Block prepared by Huddleston for the year ended December 31, 2008;

“**ICO**” means PDVSA’s Interconexion Centro Occidente, a natural gas pipeline connecting Venezuela’s east and west gas pipeline networks to the PRC;

“**IFC**” means the International Finance Corporation, the private sector arm of the World Bank;

“**Lundin BV**” means Lundin Petroleum BV, the holding company incorporated in the Netherlands that is a direct, wholly-owned subsidiary of Lundin Petroleum;

“**Lundin Petroleum**” means Lundin Petroleum AB, the Swedish independent oil and gas exploration and production company that is indirectly the major shareholder of PetroFalcon;

“**Lundin Transaction**” means the acquisition by PetroFalcon of 100% of the issued and outstanding shares of Lundin Venezuela and the simultaneous private placement of PetroFalcon units to Lundin BV, which closed on February 1, 2008 and is further described under “*General Development of the Business-Three Year History - 2008, and - 2007*”;

“**Lundin Venezuela**” means Lundin Latina de Petroleos, S.A., a former wholly-owned subsidiary of PetroFalcon incorporated pursuant to the laws of Venezuela which merged into Vinccler Venezuela effective December 31, 2008 and thereafter ceased to exist;

“**MEP**” means the Ministry of Energy and Petroleum of the Bolivarian Republic of Venezuela, formerly the Ministry of Energy and Mines;

“**Mixed Company**” means PetroCumarebo or Baripetrol (and collectively, the “**Mixed Companies**”);

“**PDVSA**” means Petroleos de Venezuela, S.A., the state-owned oil and gas Corporation of the Bolivarian Republic of Venezuela;

“**Perenco**” means Perenco Oil and Gas International Limited, the subsidiary of a French oil and gas company holding 17.5% of Baripetrol;

“**PetroCumarebo**” means PetroCumarebo, S.A., a style of corporate entity known as a mixed company, created by the arrangement between Vinccler Venezuela and CVP;

“**PRC**” means PDVSA’s Paraguaná Refinery Complex located on the Paraguaná Peninsula in western Venezuela;

“**Repsol**” means Repsol YPF, S.A., a Spanish integrated oil and gas company with a 50% interest in the Cardon IV Block;

“**SENIAT**” means the National Integrated Customs and Tax Administration Service of Venezuela;

“**Tecpetrol**” means Tecpetrol de Venezuela, S.A., the subsidiary of an Argentine oil and gas company holding 17.5% of Baripetrol;

“**Transitory Agreement**” means the agreement dated August 4, 2005, between PDVSA and Vinccler Venezuela in which the parties agreed to commence negotiations of converting the rights granted pursuant to the East Falcon OSA into a mixed company;

“**Venezuela**” means the Bolivarian Republic of Venezuela;

“**Venezuelan Hydrocarbons Law**” means the “Ley Orgánica de Hidrocarburos” which came into force on November 13, 2000, was amended on May 24, 2006, and governs hydrocarbon activities in Venezuela;

“**Vinccler Venezuela**” means Vinccler Oil and Gas, C.A., the sole, and wholly-owned, subsidiary of PetroFalcon incorporated pursuant to the laws of Venezuela;

“**West Falcon**” means West Falcon Samson Hydrocarbons, S.R.L., a subsidiary of Samson International LLC, which owned a separate operating service agreement for the West Falcon Block and was acquired by Vinccler Venezuela on March 21, 2006. Effective October 30, 2006, West Falcon Samson Hydrocarbons, S.R.L., was merged into Vinccler Venezuela and West Falcon Samson Hydrocarbons, S.R.L. ceased to exist;

“**West Falcon Block**” means the area covering approximately 438,000 acres in Venezuela that was previously operated by West Falcon pursuant to the terms of the West Falcon OSA, which is now controlled by PetroCumarebo; and

“**West Falcon OSA**” means the operating service agreement dated November 17, 1994, between West Falcon Hydrocarbons, S.R.L. and Maraven, S.A. (an affiliated entity of PDVSA), relating to the West Falcon Block in Venezuela.

THE CORPORATION

Name, Address and Incorporation

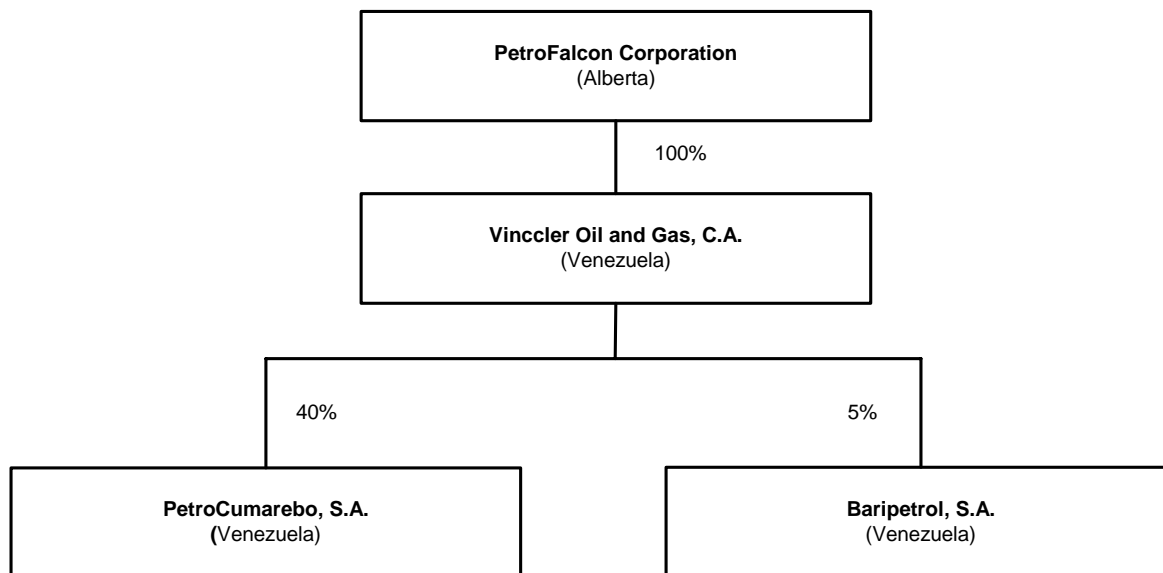
PetroFalcon was incorporated pursuant to the laws of the Province of Ontario on July 27, 1993, under the name of Agents of Change Inc. Pursuant to Articles of Continuance dated February 28, 1996, the Corporation was continued under the ABCA, its name was changed to VisualLabs Inc., and it effected a stock split issuing 90,141 common shares for each 100 common shares outstanding as of that date. On November 28, 2002, the name of the Corporation was changed to Pretium Industries Inc., and on June 24, 2003, the name of the Corporation was changed to PetroFalcon Corporation. Effective October 30, 2007, PetroFalcon and its wholly-owned Canadian subsidiary, Vinccler Oil and Gas Corporation, completed a vertical amalgamation and continued as one corporation under the name PetroFalcon Corporation.

The Corporation is authorized to issue an unlimited number of common shares and preferred shares, issuable in series. On April 28, 2008, the board of directors of the Corporation repealed the then existing by-laws of the Corporation and enacted a new general By-Law No. 1, all of which was approved by the shareholders of the Corporation at the annual and special meeting of shareholders held on June 17, 2008. A copy of By-Law No. 1 is available through the internet on SEDAR under the Corporation's profile, which may be accessed at www.sedar.com.

PetroFalcon's head and registered offices are located at 3700 Canterra Tower, 400 3rd Avenue SW, Calgary, Alberta T2P 4H2.

Intercorporate Relationships

As at the date of this AIF, the Corporation had the following subsidiary and interests as shown in the organizational chart below:



PetroFalcon carries on oil and gas operations in Venezuela through its wholly-owned subsidiary, Vinccler Venezuela, which holds a 40% and 5% interest in PetroCumarebo and Baripetrol, respectively.

All of PetroFalcon's earnings are currently generated pursuant to the ownership structure of PetroCumarebo and Baripetrol.

Vinccler Venezuela's principal office is located at Centro Altamira, Piso 12, Av. San Juan Bosco, Urb. Altamira, Caracas 1060, Venezuela.

On March 21, 2006, Vinccler Venezuela acquired 100% of the outstanding shares of West Falcon, which merged into Vinccler Venezuela effective October 30, 2006, and ceased to exist.

On February 1, 2008, PetroFalcon acquired 100% of the outstanding shares of Lundin Venezuela, which merged into Vinccler Venezuela effective December 31, 2008, and ceased to exist.

GENERAL DEVELOPMENT OF THE BUSINESS

Business of the Corporation

PetroFalcon is engaged in the exploration, development, production and management of oil and natural gas properties through its wholly-owned subsidiary, Vinccler Venezuela, which holds a 40% and 5% interest in PetroCumarebo and Baripetrol, respectively.

Dividends from Mixed Companies

PetroFalcon does not have traditional working interests in oil and gas properties. PetroFalcon's only source of near-term revenues is potential dividends from its 40% interest in PetroCumarebo and its 5% interest in Baripetrol. Under Venezuelan law, dividends can only be declared to the extent a company has net and available profits as stated in its approved financial statements. Therefore, if there are sufficient net and available profits, subject to prior approval of shareholders, PetroFalcon, through Vinccler Venezuela, may receive annual dividends in US dollars, or quarterly loans against those projected dividends. If the Mixed Companies' boards of directors do not propose dividends, the Mixed Companies' shareholders do not approve dividends, or the Mixed Companies do not have net and available profits to declare dividends, PetroFalcon cannot expect to receive payment from the Mixed Companies. Dividends from the Mixed Companies must be proposed by four out of the five board members (80%), and each of Vinccler Venezuela and Baripetrol's private party consortium (which includes Tecpetrol, Perenco and Vinccler Venezuela) have two out of five board seats (40%) in the respective Mixed Companies. Dividends proposed by the board of the Mixed Companies must be approved by a qualified majority (75%) of its respective shareholders, and Vinccler Venezuela and Baripetrol's private party consortium each only account for 40% of the respective shareholders.

Mixed Company Accounting

Historically, PetroFalcon considered its investment in and relationship with PetroCumarebo to be one of joint control and accordingly accounted for its 40% interest in PetroCumarebo using proportionate consolidation. In effect, PetroFalcon recognized 40% of PetroCumarebo's revenues, expenses, assets and liabilities in PetroFalcon's financial statements. In 2007, PetroFalcon re-evaluated its relationship with PetroCumarebo and concluded that, for accounting purposes, PetroFalcon's investment in PetroCumarebo does not meet the criteria for proportionate consolidation or equity method of accounting. Accordingly, PetroFalcon has accounted for PetroCumarebo using the cost method of accounting for the years ended December 31, 2008, and 2007. PetroFalcon also accounts for Baripetrol using the cost method of accounting. Under the cost method, PetroFalcon does not recognize its respective shares of revenues, expenses, assets or liabilities from PetroCumarebo and Baripetrol and instead only recognizes income from these investments to the extent that dividends are received from PetroCumarebo or Baripetrol. As a result, PetroFalcon had no revenues for the years ended December 31, 2008, and 2007.

Three Year History

(See also "*Business of the Corporation*" and "*Narrative Description of the Business*")

2009 Developments

Chevron-Cardon III Block

On January 5, 2009, Vinccler Venezuela announced the termination of the agreement to acquire a 30% interest from Chevron in the offshore natural gas license for the Cardon III Block due to tightening global capital markets and the uncertain oil and gas price environment. On January 19, 2009, Chevron returned \$5.8 million to Vinccler Venezuela, which included all amounts paid to Chevron plus accrued interest (see also “*General Development of the Business – Three Year History – 2008 and – 2007*”).

2008

Anadarko Transaction

On April 7, 2008, PetroFalcon announced the signing of a binding sale and purchase agreement for the acquisition of 100% of the issued and outstanding shares of Anadarko Venezuela Company (“**Anadarko Venezuela**”) from an affiliate of Anadarko Petroleum Corporation (“**Anadarko Petroleum**”) for \$200 million in cash (the “**Anadarko Transaction**”). Anadarko Venezuela indirectly owns 18% of Petroritupano, S.A. (“**Petroritupano**”), a mixed company with PDVSA and Petrobras Energia, S.A. (“**Petrobras**”). The agreement was subject to the approval of the MEP. Upon executing the sale and purchase agreement with Anadarko Petroleum, PetroFalcon delivered \$5 million (or 2.5% of the base purchase price) in cash to Anadarko Petroleum as a guarantee for the transaction.

On October 8, 2008, the Company announced in a press release that it had been advised that MEP denied approval for the acquisition of Anadarko Venezuela because PDVSA intended to acquire Anadarko Petroleum’s interest in Petroritupano. Anadarko Petroleum subsequently terminated the sale and purchase agreement and returned PetroFalcon’s \$5 million cash deposit with interest.

At PetroFalcon’s request, Lundin Petroleum provided a guarantee to Anadarko Petroleum for the full purchase price in the Anadarko Transaction. In consideration for the guarantee, PetroFalcon had agreed to issue 17,100,000 common shares of the Company to Lundin Petroleum or one of its subsidiaries, subject to regulatory approval. On April 11, 2008, PetroFalcon issued 7,100,000 common shares to Lundin Petroleum. The initial 7,100,000 common shares were expensed by the Company as stock-based financing fees over the effective period of the sale and purchase agreement. As a result of the termination of the Anadarko Transaction and in accordance with the agreement with Lundin Petroleum, the remaining 10,000,000 common shares of the Corporation that would have been due at closing were not issued.

Lundin Transaction

PetroFalcon closed the Lundin Transaction on February 1, 2008 (see “*General Development of the Business - Three Year History – 2007*” for a full description of the Lundin Transaction). As a result of the Lundin Transaction, all of PetroFalcon’s outstanding stock options vested immediately on February 1, 2008 because of provisions contained in each of the stock option agreements. Additionally, concurrent with the Lundin Transaction, Ashley Heppenstall and John Craig were appointed to the Board of Directors of PetroFalcon.

During the year ended December 31, 2008, Lundin Venezuela received \$2.9 million of dividends from Baripetrol for operations between January and December 2007. The dividends were credited against the historical cost of the investment instead of being recognized as income during the year ended December 31, 2008, because the dividends were related to pre-acquisition earnings.

Chevron - Cardon III Block

On April 9, 2008, Vinccler Venezuela paid Chevron \$3.2 million for its 30% share of costs related to the Cardon III Block in 2007 (for additional details, see “*General Development of the Business – Three Year History – 2007*”).

Repsol - Cardon IV Block

On March 12, 2008, PetroFalcon announced the signing of a letter of intent with Repsol, whereby Vinccler Venezuela intended to acquire 25% of the Cardon IV Block. The transaction was subject to the approval of MEP, as well as the negotiation and execution of a sale and purchase agreement.

The Company has since terminated the negotiation of the sale and purchase agreement with Repsol. PetroFalcon chose not to proceed with Cardon IV due to the increased risk associated with the block after a detailed review of the 3D seismic data. As at the date of this AIF, the Corporation has not paid anything to Repsol in connection with the termination of negotiations and has no ongoing capital commitment in connection with the Cardon IV Block.

Debt Repayments

On March 27, 2008, Vinccler Venezuela repaid \$350,000 plus interest to a related party, Vinccler, C.A., in respect of a loan made to the Corporation on August 25, 2006, to purchase the data package for the Delta Caribe offshore natural gas license bid process.

PetroCumarebo Drilling

During 2008, PetroCumarebo drilled seven wells: three development wells and two appraisal wells in the Cumarebo Field and two development wells in the La Vela Field. This drilling campaign resulted in two successful oil wells in the southern part of the La Vela Field, one successful gas well, one non-commercial gas well, two wells that failed to meet their main objective but that will be tested in other sands, and one dry hole in the Cumarebo Field.

Baripetrol Drilling

No drilling was done by Baripetrol in 2008 due to the delay in securing a drilling rig. A rig was finally mobilized in December 2008 to the La Palma Field in order to drill the first of a series of four development wells in this field.

2007

Lundin Transaction

On August 22, 2007, PetroFalcon entered into a share purchase agreement with Lundin BV in connection with the Lundin Transaction. Prior to its merger into Vinccler Venezuela, Lundin Venezuela owned 5% of Baripetrol, a mixed company created by the arrangement with CVP, Tecpetrol and Perenco. Baripetrol operates the Colon Block in western Venezuela and has onshore production of oil and natural gas. The Lundin Transaction closed on February 1, 2008.

The consideration for the acquisition of Lundin Venezuela was the issuance of 57,254,505 common shares of PetroFalcon at a price of CDN\$0.80 per share.

Concurrent with the acquisition, Lundin BV subscribed for 6,665,995 units of PetroFalcon at a purchase price of CDN\$0.80 per unit, resulting in additional proceeds to the Corporation of approximately \$5.1 million. Each unit

consisted of one common share and approximately 0.75 warrants, such that Lundin BV now holds an aggregate of 5,000,000 warrants. Each whole warrant is exercisable for common shares of the Corporation at an exercise price of CDN\$1.20 per common share and expires two years from February 1, 2008.

In total, Lundin BV acquired 63,920,500 common shares, representing approximately 42% of the then issued and outstanding common shares of PetroFalcon on an undiluted, post-closing basis, plus 5,000,000 warrants of the Corporation.

In connection with the Lundin Transaction, PetroFalcon paid a cash finder's fee of \$543,600 and issued 569,284 common shares of PetroFalcon to Nanes Delorme Capital Management, LLC, a boutique investment bank in New York City that is arm's length to the Corporation. As a result of the Lundin Transaction, all of PetroFalcon's outstanding stock options vested immediately on February 1, 2008, because of provisions contained in each of the stock option agreements.

Chevron - Cardon III Block

On February 26, 2007, Vinccler Venezuela and Chevron announced the signing of a "heads of terms" agreement whereby Vinccler Venezuela would acquire a 30% interest from Chevron in the offshore natural gas license for the Cardon III Block in the Gulf of Venezuela. Under the terms of the agreement effective January 1, 2007, Chevron would remain the operator and majority partner with a 70% interest. PDVSA retained the right to acquire up to 35% of the project after declaration of commerciality, and the transaction was subject to the approval of MEP.

On March 9, 2007, Vinccler Venezuela paid Chevron \$2.2 million, which included 30% of all Chevron's costs related to the Cardon III Block before the effective date of the transaction. Under the farm-in agreement, all funds paid by Vinccler Venezuela to Chevron were to be returned with interest if MEP approval was denied.

The acquisition of 530 square kilometres of three-dimensional seismic data over the Cardon III Block was completed in April 2007.

Interconexion Centro Occidente Pipeline

PetroCumarebo delivers natural gas into PDVSA's ICO natural gas pipeline, which then transports the natural gas to the nearby PRC. On December 6, 2006, the ICO pipeline experienced a joint rupture, and PDVSA closed the pipeline section leading to PetroCumarebo's production in the La Vela and Cumarebo fields. As a result, most of PetroCumarebo's natural gas production was temporarily shut-in, but its wells and facilities were unaffected. PetroCumarebo resumed natural gas deliveries from the La Vela Field in August 2007 and from the Cumarebo Field in February 2008.

Colombia Caribbean Round

On July 30, 2007, PetroFalcon paid \$150,000 to Colombia's Agencia Nacional de Hidrocarburos ("ANH") to purchase the data package for Caribbean Round 2007, Colombia's first offshore exploration bidding round. Colombia offered 13 blocks off the Caribbean coastline with an average size of approximately 720,000 acres. The properties stretch from offshore Guajira at the northern tip of Colombia to the northern end of the Uraba Gulf, including almost all of Colombia's Caribbean coastline. The properties offered were both deepwater and shallow blocks, some of which are both onshore and offshore with similar geology to the Gulf of Venezuela. PetroFalcon did not participate in the final bid round.

2006

PetroFalcon's revenues for the three months ended March 31, 2006, were derived from the East Falcon Block under the East Falcon OSA. Effective March 21, 2006, Vinccler Venezuela completed the acquisition of West

Falcon, a subsidiary of Samson International LLC, which owned the West Falcon OSA. The operating rights to the West Falcon Block were subsequently contributed to PetroCumarebo effective April 1, 2006.

Mixed Company Creation

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 CVP, an affiliate of PDVSA, to create a mixed company, later incorporated as PetroCumarebo, which would hold all the operating rights to the East Falcon Block and West Falcon Block.

PetroCumarebo Conversion Contract

On September 29, 2006, Vinccler Venezuela and CVP executed the Conversion Contract, which identified 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 PetroCumarebo:

- The effective date of PetroCumarebo is April 1, 2006;
- PetroCumarebo has the exclusive right to explore for, develop and produce oil and natural gas in its area of operations (838,000 acres) for a term of 20 years;
- PetroCumarebo can only sell its oil and natural gas production to PDVSA;
- PetroCumarebo pays a royalty of 33.33% on oil and natural gas production;
- PetroCumarebo has an applicable income tax rate of 50%;
- PetroCumarebo pays 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;
- Vinccler Venezuela, as a 40% shareholder, is responsible for 40% of PetroCumarebo’s capital expenditures and operating expenses that cannot be paid for by the mixed company’s cash flow, if no other means of financing is available; and
- When there are sufficient net and available profits, and subject to the prior approval of the shareholders, Vinccler Venezuela may receive annual dividends in US dollars, or quarterly loans against those projected dividends, derived from its 40% participation.

PetroCumarebo Joint Control

According to the Conversion Contract, Vinccler Venezuela and CVP share joint control over PetroCumarebo. The Conversion Contract provides specific legal protections for Vinccler Venezuela as the 40% partner:

- Vinccler Venezuela has the right to nominate the Technical and Operations Manager who are in charge of field development plans related to all drilling, work-overs and surface facilities;
- Certain matters require the approval of the ownership of at least 75% of the shares of PetroCumarebo;
- Each shareholder has the right to nominate a percentage of management personnel equal to its share ownership; and

- Budgets and work programs must be consistent with the business plan appended to the Conversion Contract as approved by Vinccler Venezuela and CVP.

Despite contractual joint control, PetroFalcon has been unable to exercise joint control or significant influence over PetroCumarebo in practice due to its partner, CVP, occasionally exercising unilateral control as an affiliate of the host government and the only customer of PetroCumarebo, PDVSA. Please see “*Risk Factors – Joint Control or Significant Influence*”.

PetroCumarebo Transitional Period

Vinccler Venezuela agreed with PDVSA to continue operating the East Falcon Block and West Falcon Block during a transitional period between April 1, 2006, and December 31, 2006, (“**Transitional Period**”) under the following general terms:

- PDVSA paid royalties on behalf of PetroCumarebo for oil and natural gas delivered from the East Falcon Block and West Falcon Block;
- Vinccler Venezuela was reimbursed by PDVSA for 100% of capital expenditures and operating expenses incurred by Vinccler Venezuela on behalf of PetroCumarebo related to the East Falcon Block and West Falcon Block; and
- Vinccler Venezuela delivered oil and natural gas production from the East Falcon Block and West Falcon Block on behalf of PetroCumarebo to PDVSA, which was invoiced later by PetroCumarebo.

On October 24, 2006, PetroCumarebo, S.A. was legally incorporated as a mixed company, as described in the Conversion Contract. On November 24, 2006, PetroCumarebo received the presidential transfer decree to operate the East Falcon Block and West Falcon Block, the ceremonial last step in the conversion from the East Falcon OSA and West Falcon OSA to PetroCumarebo. On December 28, 2006, as required by the Conversion Contract, Vinccler Venezuela contributed its 40% share of PetroCumarebo’s first month of working capital, a total of approximately \$2.1 million.

International Finance Corporation

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. The IFC received 2,639,651 shares at an average 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.

On October 12, 2006, Vinccler Venezuela gave 30-day notice to the IFC in order to cancel the “A” Loan (as hereinafter defined) option, effective November 11, 2006.

On December 8, 2006, the IFC provided notice of its intention to convert the remaining \$4 million of its outstanding loan into common shares of PetroFalcon. The IFC received 4,160,578 shares at an average price of CDN\$1.11 per share based on the market-weighted average share price over the previous 20 trading days to the notice date. The IFC has therefore converted the entire \$12 million disbursed in 2005 into common shares of PetroFalcon.

Interconexion Centro Occidente Pipeline

On December 6, 2006, the ICO pipeline experienced a joint rupture, and PDVSA closed the pipeline section leading to PetroCumarebo’s production in the La Vela and Cumarebo fields. See “*General Development of the Business - Three Year History - 2007*” for further details.

Delta Caribe

On August 25, 2006, Vinccler Venezuela paid \$350,000 to purchase the data package for the Delta Caribe offshore gas license bid round in Venezuela. The data package contained technical information for the La Blanquilla area, located north-west of the state of Nueva Esparta, and Punta Pescador, north of the state of Delta Amacuro. The bid round was delayed by the Venezuelan government, and these blocks were subsequently awarded to other parties in direct negotiations.

Significant Acquisitions

Lundin Venezuela—see “*General Developments of the Business - Three Year History - 2008*” and “*General Developments of the Business - Three Year History - 2007*”.

A business acquisition report was filed for the above-noted acquisition which is available through the internet on SEDAR under the Corporation’s profile, which may be accessed at www.sedar.com.

Narrative Description of the Business of the Corporation

PetroFalcon Corporation is engaged in the exploration, development, production and management of oil and natural gas properties through its wholly-owned subsidiary, Vinccler Venezuela, which holds a 40% and 5% interest in each of PetroCumarebo and Baripetrol, respectively. Since all of PetroFalcon’s oil and natural gas exploration and production activities are in Venezuela, South America, its earnings are entirely dependant on foreign operations conducted through PetroCumarebo and Baripetrol.

PetroCumarebo holds all of the operating rights to the East Falcon Block and the West Falcon Block, a total of approximately 838,000 acres in north-western Venezuela with current onshore production of oil and natural gas. The Falcon area is strategically located in close proximity to the PRC.

Baripetrol holds all of the operating rights to the Colon Block, an area of approximately 297,000 acres in western Venezuela with current onshore production of oil and natural gas.

The price per barrel of crude oil delivered is derived from detailed formulas outlined in the Conversion Contracts for each of the Mixed Companies. The formulas are specific to quality and gravity of crude oil delivered, and are based on different weightings of several global benchmark oil prices. Using historical oil price data, management estimates these formulas to equate on average to a price that will be approximately 100% of WTI for oil from PetroCumarebo’s East and West Falcon blocks and 92% of WTI for oil from Baripetrol’s Colon Block. The East Falcon, West Falcon and Colon blocks produce light sweet crude that sells at a premium to most of the oil produced in Venezuela.

Due to the natural gas liquids contained in the Mixed Companies’ natural gas production, PetroCumarebo and Baripetrol realize on average 7% and 10%, respectively, of the WTI price for their natural gas production.

Payment from PDVSA to PetroCumarebo and Baripetrol is 100% in US dollars for crude oil and natural gas liquids and 100% in Bolivars for methane gas. Potential dividends from PetroCumarebo and Baripetrol will be paid 100% in US dollars and are at the discretion of the shareholders of the Mixed Companies, depending on net and available profits.

Principal Markets and Distribution Methods

All crude oil and natural gas produced by PetroCumarebo and Baripetrol is sold and delivered to PDVSA. Oil produced by PetroCumarebo is delivered by truck or pipeline to the PRC, and natural gas produced by PetroCumarebo is delivered into the ICO natural gas pipeline for transportation to the PRC. Oil and gas produced by Baripetrol is delivered by pipelines to PDVSA’s western pipeline network.

Specialized Skill and Knowledge

The senior and middle management of PetroFalcon and Vinccler Venezuela is comprised of technical and financial managers with an average of twenty-five years of oil and gas industry experience and an average of fifteen years experience working in the Venezuelan oil industry. Almost all of PetroFalcon and Vinccler Venezuela senior and middle managers were trained at major oil companies. PetroFalcon and Vinccler Venezuela also have employees who are experts in geology, engineering, geophysics, drilling, operations and finance.

Environmental Matters

The oil and gas industry is subject to environmental regulation pursuant to applicable legislation. Such legislation provides for restrictions and prohibitions on release or emission of various substances produced in association with certain oil and gas industry operations, and requires that well and facility sites be abandoned and reclaimed to the satisfaction of environmental authorities. The Mixed Companies maintain an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blow-outs, pollution and other operating accidents or disruptions. PetroCumarebo and Baripetrol have operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure.

Competition Conditions

The oil and gas industry is intensely competitive, and the Corporation will compete with a substantial number of other companies, many of which have greater financial resources. See “*Risk Factors-Competition*”.

Employees

At December 31, 2008, PetroFalcon and its sole subsidiary, Vinccler Venezuela, had 24 full-time employees as custodians of Vinccler Venezuela’s 40% interest in PetroCumarebo and 5% interest in Baripetrol. This includes 5 employees seconded to PetroCumarebo in Maracaibo and the field locations in Falcon state. Two of the employees of Vinccler Venezuela are on the board of directors of PetroCumarebo.

Trends and Cycles

There are a number of trends developing in the oil and gas industry that may have both a short and long term effect on PetroFalcon. There is a continuing trend relating to the level and volatility of oil and natural gas prices. Prices for both commodities increased and decreased dramatically in 2008. The cyclical nature of the oil and gas industry is tending to shorter cycles, primarily as a result of increased commodity price volatility. There is also a continuing trend in the Venezuelan energy sector towards majority state ownership, similar to the structure of the Mixed Companies.

Potential Consolidation of Mixed Companies by PDVSA

PDVSA has announced its intention to decrease the number of mixed companies by merging individual mixed companies that have common characteristics, such as location and the types of crude oil produced, into new, larger mixed companies. PDVSA will maintain a 60% participation in these new mixed companies, and the private parties will negotiate their pro forma interest based on each private party’s estimated fair value derived from the potential future dividends from the mixed companies. It is not yet known whether this consolidation will affect PetroCumarebo or Baripetrol. See “*Risk Factors - Dependence on PetroCumarebo and Baripetrol - Potential Consolidation of Mixed Companies*”.

RISK FACTORS

An investment in the common shares of PetroFalcon is speculative and involves a high degree of risk that should be considered by potential investors. An investment in the common shares of PetroFalcon is suitable only for

those investors who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investments. An investor should carefully consider the following risk factors in addition to the other information contained in this AIF before purchasing common shares of PetroFalcon. The risks and uncertainties below are not the only ones PetroFalcon is facing. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF. In addition, there are additional risks and uncertainties of which PetroFalcon is not presently aware or that the Corporation currently considers immaterial but which may also impair PetroFalcon's business operations and cause the price of the common shares of PetroFalcon to decline. If any of the following risks actually occur, the Corporation's business may be harmed and the Corporation's financial condition and results of operations may suffer significantly. In that event, the trading price of the common shares of PetroFalcon could decline, and an investor may lose all or part of his or her investment.

Dependence on PetroCumarebo and Baripetrol

Dividends

The Corporation depends on dividend payments to be received pursuant to its 40% interest in PetroCumarebo and 5% interest in Baripetrol. Any material failure of PetroCumarebo or Baripetrol to be paid for the oil and gas production delivered to PDVSA would impact the Mixed Companies' ability to pay dividends, which would have a material adverse effect on the Corporation's business, financial condition and results of operations.

Under Venezuelan law, dividends can only be declared to the extent a company has net and available profits as stated in a company's approved financial statements. Therefore, if there are sufficient net and available profits, subject to the prior approval of the shareholders, PetroFalcon, through Vinccler Venezuela, may receive annual dividends in US dollars, or quarterly loans against those projected dividends. If the Mixed Companies' boards of directors do not propose dividends, or the Mixed Companies' shareholders do not approve dividends, or the Mixed Companies do not have net and available profits to declare dividends, PetroFalcon cannot expect to receive payment.

Control

Dividends from PetroCumarebo or Baripetrol must be proposed by four out of the five board members (80%), and Vinccler Venezuela only has two out of the five board seats (40%) of PetroCumarebo. In Baripetrol, the private party consortium (made up of Tecpetrol, Perenco and Vinccler Venezuela) also only has two out of the five board seats (40%). Dividends proposed by the board of Mixed Companies must be approved by a qualified majority (75%) of its respective shareholders, and Vinccler Venezuela and Baripetrol's private party consortium each only account for 40% of the respective shareholders.

Joint Control or Significant Influence

Although the Conversion Contracts provide for joint control between CVP and Vinccler Venezuela or the private party consortium comprised of Tecpetrol, Perenco and Vinccler Venezuela, as the case may be, the Corporation has been and may be unable to exert joint control, or even significant influence, in connection with PetroCumarebo or Baripetrol as a result of CVP occasionally exercising unilateral control as an affiliate of the host government and the only customer of the Mixed Companies, PDVSA. As a result, the Corporation may not be able to access required financial, reserves and other information, and may be unable to effect decisions relating to the Corporation's exploration, development and operating activities.

Potential Consolidation of Mixed Companies

PDVSA has announced its intention to decrease the number of mixed companies by merging individual mixed companies that have common characteristics, such as location and the types of crude oil produced, into new, larger mixed companies. It is expected that PDVSA will maintain a 60% participation in these new mixed

companies, and that the private parties will negotiate their pro forma interest based on each private party's estimated fair value derived from the potential future dividends from the mixed companies. At this time, it is not yet known whether or how this consolidation would affect PetroCumarebo or Baripetrol, if at all. Consequently, the Corporation's interests in PetroCumarebo and Baripetrol could be substantially affected by such consolidation.

Oil and Gas Exploration, Development and Production - General

Oil and gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Corporation will result in new discoveries of oil, condensate or natural gas that are commercially or economically possible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Corporation's operations are subject to the general risks of exploration, development and operation of oil, condensate and natural gas properties and the drilling of wells thereon, including encountering unexpected formations or pressure, premature declines of reservoirs, blow-outs, craterings, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation. The Corporation may become subject to liability for pollution, blow-outs or other hazards. The payment of such liabilities could reduce the funds available to the Corporation or could result in a total loss of its properties and assets. Although the Mixed Companies have obtained insurance to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, the Corporation or the Mixed Companies may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation or the Mixed Companies are not fully insured against, or the insolvency of the insurer, could have a material adverse effect on the Corporation's financial position, results of operations or prospects. There can be no assurance that insurance will be available in the future.

The Corporation or the Mixed Companies may become responsible for decommissioning of the Mixed Companies' current facilities and the costs associated therewith. There are no immediate plans to establish a decommissioning reserve account in respect of any of its current properties, rather, the costs of decommissioning are expected to be paid from the proceeds of production in accordance with the practice generally employed in onshore and offshore oilfield operations. Should decommissioning be required prior to economic depletion of the East Falcon Block, West Falcon Block or Colon Block, or should the estimates of the costs of decommissioning exceed the value of the East Falcon Block, West Falcon Block or Colon Block reserves remaining at any particular time to cover such decommissioning costs, the Corporation may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such costs could have a material adverse effect on the Corporation's financial position.

Oil and natural gas exploration and development activities are dependent on the availability of skilled personnel, drilling and related equipment in the particular areas where such activities will be conducted. Demand for such personnel or equipment, or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

Oil and Gas Exploration, Development and Production - Venezuela

The oil industry is central to and dominates the Venezuelan economy. Venezuela is a founding member of OPEC and contains some of the largest oil and natural gas reserves in the world. It consistently ranks as one of the top suppliers of U.S. oil imports and is among the top ten crude oil producers in the world. The rate of economic

growth, the level of tax revenues and the supply of foreign exchange in Venezuela are materially affected by oil prices and conditions in the international oil markets generally. Any downturn in international oil prices may have a material adverse effect on the Venezuelan economy, which in turn is likely to have a material adverse effect on the Corporation.

Depletion of Reserves

An investment in PetroFalcon should be considered speculative due to the nature of the Corporation's direct or indirect involvement in the exploration for, and the acquisition, development and production of, oil and natural gas in Venezuela. The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Mixed Companies' proved reserves will decline as reserves are produced from their properties unless they are able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, the Corporation's ability to make the necessary capital investment to maintain or expand the Corporation's current asset base of investments in companies with oil and natural gas reserves will be impaired. In addition, there can be no assurance that even if the Corporation is able to raise capital to develop or acquire additional properties, the Corporation's or the Mixed Companies' future exploration, development and acquisition activities will result in additional proved reserves or that the Corporation or the Mixed Companies will be able to drill productive wells at acceptable costs.

Operations Only in Venezuela

Presently all of the Mixed Companies' oil and natural gas properties are located in the East Falcon Block, the West Falcon Block and the Colon Block in Venezuela. Any adverse change in the oil and gas fields in these areas may have a material adverse effect on the Corporation's cash flow from its investments. In addition, any significant interruption in service of the pipelines or downstream facilities on which the Mixed Companies' operations depend could have a material adverse effect on the Corporation.

Risks of Foreign Operations Generally

As a result of all of the Corporation's oil and natural gas investments being located in Venezuela, the Corporation is subject to political, economic and other uncertainties, including, but not limited to, changes, sometimes frequent, in legislation, energy policies or the personnel administering them, nationalization, expropriation of property without fair compensation, cancellation or modification of contract rights, foreign exchange restrictions, currency fluctuations, export quotas, royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Corporation's and the Mixed Companies' operations are conducted, as well as risks of loss due to civil strife, acts of war, guerrilla activities and insurrections. The Corporation's international operations and investments may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with its foreign operations, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or enforcing Canadian judgments in foreign jurisdictions. In addition, the Corporation's existing operating subsidiary and the Mixed Companies are formed pursuant to, and their operations are governed by, a number of complex legal and contractual relationships. The effectiveness of and enforcement of such contracts and relationships with parties in these jurisdictions cannot be assured. Consequently, the Corporation's foreign activities could be substantially affected by factors beyond the Corporation's control, any of which could have a material adverse effect on the Corporation.

Monetary Correction, Effects of Exchange Controls and Devaluation

Venezuela has experienced high rates of inflation in recent years and may continue to experience high levels of inflation in the future. Future governmental actions, including actions to adjust the value of the Bolivar, may trigger increases in inflation. Although the Corporation expects the majority of its revenues in US dollars, it may in the future generate certain other revenues, and it currently incurs expenses in Bolivars. Accordingly, periods of

substantial inflation in the future could have a material adverse effect on the Venezuelan economy, the Venezuelan financial markets and on the Corporation's business, financial condition and results of operations.

Although over long periods devaluations of the Bolivar generally have correlated with the rate of inflation in Venezuela and the amount of foreign reserves held by the Central Bank of Venezuela, over shorter periods of time government actions have resulted in significant fluctuations in the exchange rate between the Bolivar and the US dollar. In the event of a large devaluation of the Bolivar, the financial condition and results of operations of Venezuelan companies and the ability of such companies to meet their foreign currency denominated obligations could be adversely affected. A devaluation of the Bolivar may also have other adverse effects, such as creating additional inflationary pressures, which could adversely affect the Corporation. In addition, in times of unrestricted foreign exchange availability, the rate of devaluation of the Bolivar in relation to the US dollar has not at all times corresponded directly with the rate of Venezuelan inflation. The high rates of inflation in Venezuela and the parallel market of implied exchange rates for the Bolivar in relation to the US dollar therefore render meaningful comparisons of period-to-period financial performance difficult.

Currency controls were instituted by the Government of Venezuela on February 5, 2003. These controls mandate certain currency exchanges by certain categories of persons to be undertaken through the Central Bank of Venezuela at fixed exchange rates. These categories of persons include PDVSA and individuals or private legal entities bringing foreign currency into the country for any reason, including direct foreign investment.

The Corporation is a Holding Corporation

The Corporation is a holding Corporation that conducts substantially all of its operations through PetroCumarebo and Baripetrol. The Corporation has no direct operations and no significant assets other than cash and the stock of Vinccler Venezuela which holds the Corporation's interests in PetroCumarebo and Baripetrol. Therefore, to the extent the Corporation's cash resources and funds realized from financings are not sufficient to fund its operations, the Corporation will be dependent on the payment of dividends from the Mixed Companies to Vinccler Venezuela and payments from Vinccler Venezuela to meet its obligations. See "*Dependence on PetroCumarebo and Baripetrol*" above. The ability of Vinccler Venezuela to make payments to the Corporation may be constrained by the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which it operates, and the introduction of exchange controls or repatriation restrictions or the availability of hard currency to be repatriated.

Uncertainty of Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of reserves and the present value of net cash flows attributable to such reserves. Such estimates represent subjective judgments based on available data and the quality of such data. Different reserve engineers may make different estimates of reserve quantities and the present value of net cash flows attributable to the production of such quantities. Substantial revisions to the reserve quantities and present value estimates may be necessary due to numerous factors, including the results of drilling, testing and production and changes in the assumptions regarding decline and production rates, taxes, royalties, prices and costs made after the date of a reserve estimate. The reserve estimates of PetroCumarebo and Baripetrol included and incorporated by reference in this AIF could be materially different from the quantities and values ultimately realized, and were based on a number of assumptions which are subject to change, beyond the Corporation's control, and on data some of which was not generated using recent technology and may therefore be subject to a higher than normal risk of error.

There is no assurance that oil, gas or condensate will be produced in sufficient quantities to make the existing discoveries commercially economic for the Corporation. The long-term viability of the Corporation depends on its ability to find or acquire, develop and commercially produce additional oil, condensate and gas reserves.

Prices and Markets for Crude Oil, Condensate and Natural Gas

Oil, condensate and natural gas are commodities whose prices are determined based on global demand, supply and other factors all of which are beyond the control of the Corporation. World prices for oil and condensate have fluctuated widely in recent years. Future price fluctuations in world oil prices will have a significant impact upon the revenue of the Mixed Companies and the return from and the financial viability of the Mixed Companies' existing and future reserves.

Substantial Capital Requirements, Liquidity

Dividends received by the Corporation from the Mixed Companies may not be sufficient to fund its ongoing activities. From time to time, the Corporation may require additional financing in order to carry out its investment, oil and gas acquisition, exploration and development activities. The Corporation anticipates that it will make substantial capital expenditures for the exploration, development and production of oil and natural gas reserves in the future. If the Mixed Companies' earnings or reserves decline or the Corporation cannot receive funds from PetroCumarebo and/or Baripetrol, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its direct or indirect interest in certain properties, miss certain business opportunities and reduce or terminate its operations. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be available on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business, financial condition and results of operations.

Issuance of Debt

From time to time the Corporation may enter into transactions to acquire assets or the shares of other enterprises. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. Although the Corporation does not currently have any debt, the future level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Competition

The oil and gas industry is intensely competitive, and the Corporation will compete with a substantial number of other companies, many of which have greater financial resources. Competition is particularly intense in the acquisition of prospective oil properties and oil and gas reserves. PetroFalcon's competitive position depends on the geological, geophysical and engineering expertise of the Corporation and the other shareholders of the Mixed Companies, their respective financial resources, the ability of the Mixed Companies to develop their properties and the ability of the Corporation and the Mixed Companies to select, acquire and develop proved reserves. PetroFalcon competes with a substantial number of other companies having larger technical staff and greater financial and operational resources. Many such companies not only explore for and produce oil, condensate and natural gas, but also carry on refining operations and market petroleum and other products on a global basis. PetroFalcon and the Mixed Companies also compete with major and independent oil and gas companies and other industries supplying energy and fuel in the marketing and sale of oil and gas to transporters, distributors and end users, including industrial, commercial and individual consumers. PetroFalcon and the Mixed Companies also compete with other oil and gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time, and in particularly short supply when there are significant increases in the market price of oil and gas. In addition, equipment and other materials necessary to construct production and transmission facilities may be in short supply from time to time. Finally, companies not previously investing in oil and gas may choose to acquire reserves to establish a

firm supply or simply as an investment. Such companies will also provide competition for PetroFalcon and the Mixed Companies. There is no assurance that the Corporation or the Mixed Companies will be able to successfully compete against their competitors.

Governmental Regulation

The oil and gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for oil and natural gas, increase the Corporation's costs and have a material adverse effect on the Corporation.

Environmental Regulation

The Corporation's and the Mixed Companies' future operations may be subject to environmental regulations promulgated by the government of Venezuela or other governments from time to time. Current environmental legislation in Venezuela provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil, condensate and natural gas operations. In addition, certain types of operations may require the submission and approval of environmental impact assessments. Environmental legislation and policy is periodically amended. Such amendments may result in stricter standards and enforcement, and in more stringent fines and penalties for non-compliance. Environmental assessments of existing and proposed projects carry a heightened degree of responsibility for companies and their directors, officers and employees. The costs of compliance associated with changes in environmental regulations could require significant expenditures, and breaches of such regulations may result in the imposition of fines and penalties, any of which may be material. There can be no assurance that these environmental costs will not have a material adverse effect on the Corporation in the future.

Effective April 1, 2006, the East Falcon Block and West Falcon Block were transferred to PetroCumarebo, and PetroCumarebo became responsible for environmental practices and operations on both the East Falcon Block and West Falcon Block. Vinccler Venezuela prepared an environmental report on conditions before the transfer and found no material environmental defects. Vinccler Venezuela will remain responsible for its 40% share of any PetroCumarebo environmental obligations. Similarly, Vinccler Venezuela is responsible for its 5% share of any Baripetrol environmental obligations.

Reliance on Contractors and Key Employees

The ability of the Corporation and the Mixed Companies to conduct their Venezuelan operations is highly dependent on the availability of skilled workers. The labour force is unionized and politicized, and the Mixed Companies' operations may be subject to strikes and other disruptions. In addition, the success of the Corporation is largely dependent upon the performance of its management and key employees. The Corporation does not have any key man insurance policies, and there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Corporation.

Enforceability of Actions

Certain of the Corporation's directors and officers reside outside of Canada. All of the Corporation's assets and most of those of the directors and officers are located outside of Canada. As a result, it may not be possible for investors to effect service of process within Canada upon the Corporation, its directors or officers or to enforce, in the courts of Canada, judgments against such persons or assets.

Conflicts of Interest

Certain of the directors of the Corporation may have associations with other oil and gas companies or with other industry participants with whom the Corporation does business. The directors of the Corporation are required by applicable corporate law to act honestly and in good faith with a view to the Corporation's best interests and to disclose any interest which they may have in any project or opportunity to the Corporation. However, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in the best interests of the Corporation.

INDUSTRY CONDITIONS

Government Regulation

The Corporation is subject to regulations imposed by MEP.

PetroCumarebo and Baripetrol have been granted the right to conduct the primary activities set out in Article 9 of the Venezuelan Hydrocarbons Law (i.e., the right to explore, extract, collect, transport and store hydrocarbons) pursuant to the power of the Executive Branch under Article 22 of the Venezuelan Hydrocarbons Law to grant such right, through a Decree pursuant to the terms of Article 24 of the same law, to a corporation qualified as a Mixed Company.

Under Presidential Transfer Decree 5,002, dated November 17, 2006, and published in Official Gazette 38,571 on November 24, 2006, PetroCumarebo has the exclusive right to explore for, develop and produce hydrocarbons in the East Falcon Block and the West Falcon Block for a term of 20 years.

Under Presidential Transfer Decree 4,790, dated September 11, 2006, and published in Official Gazette 38,533 on September 29, 2006, Baripetrol has the exclusive right to explore for, develop and produce hydrocarbons in the Colon Block for a term of 20 years.

Ownership of hydrocarbons in the underlying reservoir is reserved for the State.

Pricing and Marketing - Oil

Oil is priced according to the formulas in the sales contracts appended to the Conversion Contracts whereby PetroCumarebo receives, on average, approximately 100% of WTI per barrel for oil from the East and West Falcon blocks, and Baripetrol receives, on average, approximately 92% of WTI per barrel for oil from the Colon Block.

Payment from PDVSA to PetroCumarebo and Baripetrol is 100% in US dollars for crude oil.

Oil production from both PetroCumarebo and Baripetrol is subject to 33.33% royalties and is delivered exclusively to PDVSA.

Pricing and Marketing - Natural Gas

Due to the natural gas liquids contained in the Mixed Companies' natural production, PetroCumarebo and Baripetrol realize on average 7% and 10%, respectively, of the WTI price per Mcf for their natural gas production.

Payment from PDVSA to PetroCumarebo and Baripetrol is 100% in US dollars for natural gas liquids and 100% in Bolivars for methane gas.

Natural gas production from both PetroCumarebo and Baripetrol is subject to 33.33% royalties and is delivered exclusively to PDVSA.

NOTE REGARDING RESERVES DATA AND OTHER OIL AND GAS INFORMATION FOR EACH OF PETROCUMAREBO AND BARIPETROL

Mixed Company Accounting

As described under “*General Development of the Business*” PetroFalcon accounts for its interests in the Mixed Companies using the cost method of accounting. Notwithstanding such accounting treatment, PetroFalcon considers itself to be an oil and gas company carrying on active operations because PetroFalcon employs technical personnel participating in the search for oil and gas in PetroCumarebo’s operating properties. In addition, PetroFalcon has technical and financial staff actively looking for new oil and gas properties for PetroFalcon to operate.

National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (“**NI 51-101**”) governs the requirement to disclose reserves data and other oil and gas information. NI 51-101 applies to reporting issuers engaged, directly or indirectly in oil and gas activities, but NI 51-101 does not contemplate reserves disclosure by issuers using the cost method of accounting. Therefore, given PetroFalcon’s status as an oil and gas company with active operations using the cost method of accounting, there is no guidance or precedent for PetroFalcon’s voluntary NI 51-101 reserves disclosure relating to PetroCumarebo and Baripetrol.

Management believes that it is important to provide comparative and relevant oil and gas information in the AIF, where possible. Therefore, management retained the services of an independent engineer to prepare the Huddleston Reports and has provided NI 51-101 disclosure (including Form 51-101F2 and Form 51-101F3 attached hereto as Appendix B and Appendix C, respectively) in this AIF. The disclosure in this AIF provides relevant oil and gas information in respect of PetroCumarebo and Baripetrol, respectively, to the extent possible given its relationship with the Mixed Companies and the utilization of the cost method of accounting. This information is based upon unaudited information provided by the Mixed Companies to management of the Corporation and upon the Huddleston Reports. The Corporation has relied upon the Mixed Companies for the delivery of information and disclosure, and therefore, the Corporation is only able to disclose oil and gas information as it pertains to the Mixed Companies to the extent that the information and disclosure has been provided by the Mixed Companies to PetroFalcon. As a result, certain continuous disclosure for the year ended 2008 will vary from that provided in 2007, including continuous disclosure relating to PetroCumarebo’s reserves.

Crude Oil, Natural Gas and Natural Gas Liquids Reserves

Huddleston prepared the oil, natural gas and natural gas liquids reserves assessment and evaluation of PetroCumarebo and Baripetrol dated March 2, 2009, and effective December 31, 2008, referred to herein as the Huddleston Reports. In preparing the Huddleston Reports, Huddleston obtained basic information from PetroFalcon that included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluation and upon which the Huddleston Reports are based, was obtained from public records, other operators and from Huddleston’s non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by Huddleston as represented.

Certain tables in this AIF set forth certain information relating to the oil and natural gas reserves attributable to PetroCumarebo’s properties in the East Falcon Block and West Falcon Block and to Baripetrol’s properties in the Colon Block and the present value of the estimated future net cash flow associated with such reserves as at December 31, 2008, which numbers may vary slightly from those presented in the Huddleston Reports due to rounding. Also due to rounding, certain columns may not add exactly. The preparation date of the Huddleston

Reports is March 2, 2009. Certain tables that are derived by utilizing forecast prices and costs are presented with the December 31, 2008 pricing assumptions set forth herein. The values shown for the Huddleston Reports include reserves data in connection with Baripetrol's properties in the Colon Block, the acquisition of which was completed during 2008. Reserve and revenue information for Baripetrol was not included in disclosures presented as of December 31, 2007. The information set forth below is derived from the Huddleston Reports that has been prepared in accordance with the standards contained in the Canadian Oil & Gas Evaluation Handbook and the reserves definitions set forth therein. All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs (beyond the mixed company level) and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of PetroCumarebo's and Baripetrol's properties. There is no assurance that such price and cost assumptions will be attained, and variances could be material. The recovery and reserve estimates of crude oil, natural gas liquids ("NGL") and natural gas reserves provided herein are estimates only, and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, NGL and natural gas reserves may be greater than or less than the estimates provided herein.

All of the Mixed Companies' reserves are located in Venezuela.

In accordance with the requirements of NI 51-101, attached hereto are the following appendices:

Appendix B: Report on Reserves Data by Independent Qualified Reserves Evaluator in Form 51-101F2, which includes certain information estimated using forecast prices and costs based on December 31, 2008, pricing assumptions.

Appendix C: Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3.

Definitions used for reserve categories in the Huddleston Reports are attached as Appendix A hereto.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION FOR PETROCUMAREBO

Reserves Data Relating to PetroCumarebo

SUMMARY OF OIL AND GAS RESERVES

Values represent 100% of PetroCumarebo
as of December 31, 2008

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross ⁽¹⁾ (Mbbbl)	Net ⁽²⁾ (Mbbbl)	Gross ⁽¹⁾ (Mbbbl)	Net ⁽²⁾ (Mbbbl)	Gross ⁽¹⁾ (MMcft)	Net ⁽²⁾ (MMcft)	Gross ⁽¹⁾ (Mbbbl)	Net ⁽²⁾ (Mbbbl)
Proved								
Developed Producing	1,408	939	Nil	Nil	7,121	4,748	Nil	Nil
Developed Non-Producing	1,627	1,085	Nil	Nil	4,507	3,005	Nil	Nil
Undeveloped	<u>14,259</u>	<u>9,506</u>	<u>Nil</u>	<u>Nil</u>	<u>58,412</u>	<u>38,943</u>	<u>Nil</u>	<u>Nil</u>
Total Proved	17,294	11,529	Nil	Nil	70,040	46,696	Nil	Nil
Total Probable	<u>14,031</u>	<u>9,354</u>	<u>Nil</u>	<u>Nil</u>	<u>175,110</u>	<u>116,746</u>	<u>Nil</u>	<u>Nil</u>
Total Proved Plus Probable	<u>31,324</u>	<u>20,884</u>	<u>Nil</u>	<u>Nil</u>	<u>245,151</u>	<u>163,442</u>	<u>Nil</u>	<u>Nil</u>

Notes:

(1) PetroCumarebo's 100% ownership before royalties.

(2) PetroCumarebo's 100% ownership after royalties.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE

Values represent 100% to PetroCumarebo
as of December 31, 2008

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED					AFTER INCOME TAXES DISCOUNTED					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% PER YEAR
	AT (%/YEAR)					AT (%/YEAR)					(\$/boe)
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	
Proved											
Developed											
Producing	44,477	37,656	32,774	29,137	26,330	25,937	21,667	18,629	16,385	14,666	18.94
Developed											
Non-Producing	48,328	35,360	27,122	21,640	17,824	30,162	21,623	16,280	12,779	10,381	17.10
Undeveloped	<u>363,164</u>	<u>238,076</u>	<u>160,035</u>	<u>109,985</u>	<u>77,045</u>	<u>198,412</u>	<u>123,152</u>	<u>77,689</u>	<u>49,574</u>	<u>31,807</u>	<u>10.00</u>
Total Proved	455,969	311,092	219,931	160,762	121,199	254,511	166,442	112,598	78,738	56,854	11.38
Total Probable	<u>511,149</u>	<u>307,560</u>	<u>188,593</u>	<u>117,608</u>	<u>74,407</u>	<u>262,056</u>	<u>147,701</u>	<u>83,247</u>	<u>46,432</u>	<u>25,185</u>	<u>6.54</u>
Total Proved Plus Probable	<u>967,118</u>	<u>618,652</u>	<u>408,524</u>	<u>278,370</u>	<u>195,606</u>	<u>516,567</u>	<u>314,143</u>	<u>195,845</u>	<u>125,170</u>	<u>82,039</u>	<u>8.49</u>

TOTAL FUTURE NET REVENUE

Values represent 100% of PetroCumarebo
(UNDISCOUNTED)
as of December 31, 2008

CONSTANT PRICES AND COSTS

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$) ⁽¹⁾	Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	1,013,069	337,352	87,015	109,467	3,240	455,969	201,458	254,511
Proved, Plus Probable Reserves	2,204,318	734,038	199,027	256,253	4,020	967,118	450,551	516,566

Note:

(1) Excludes municipal taxes of M\$20,026 for Proved Reserves and M\$43,863 for Proved Plus Probable Reserves.

**FUTURE NET REVENUE
BY PRODUCTION GROUP**

Values represent 100% of PetroCumarebo
as of December 31, 2008

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	UNIT VALUE BEFORE INCOME TAX (discounted at 10%/year) (\$/boe)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	176,438	12.06
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	43,493	8.64
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	219,931	11.38
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	280,385	9.79
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	128,139	5.65
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	408,524	8.49

SUMMARY OF OIL AND GAS RESERVES

Values represent 100% of PetroCumarebo
as of December 31, 2008

FORECAST PRICES AND COSTS

RESERVES CATEGORY	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross⁽¹⁾ (Mbbbl)	Net⁽²⁾ (Mbbbl)	Gross⁽¹⁾ (Mbbbl)	Net⁽²⁾ (Mbbbl)	Gross⁽¹⁾ (MMcft)	Net⁽²⁾ (MMcft)	Gross⁽¹⁾ (Mbbbl)	Net⁽²⁾ (Mbbbl)
Proved								
Developed Producing	1,408	939	Nil	Nil	7,121	4,748	Nil	Nil
Developed Non-Producing	1,627	1,085	Nil	Nil	4,507	3,005	Nil	Nil
Undeveloped	<u>14,259</u>	<u>9,506</u>	<u>Nil</u>	<u>Nil</u>	<u>58,412</u>	<u>38,943</u>	<u>Nil</u>	<u>Nil</u>
Total Proved	17,294	11,529	Nil	Nil	70,040	46,696	Nil	Nil
Total Probable	<u>14,031</u>	<u>9,354</u>	<u>Nil</u>	<u>Nil</u>	<u>175,110</u>	<u>116,746</u>	<u>Nil</u>	<u>Nil</u>
Total Proved Plus Probable	<u>31,324</u>	<u>20,884</u>	<u>Nil</u>	<u>Nil</u>	<u>245,151</u>	<u>163,442</u>	<u>Nil</u>	<u>Nil</u>

Notes:

- (1) PetroCumarebo's 100% ownership before royalties.
(2) PetroCumarebo's 100% ownership after royalties.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE

Values represent 100% to PetroCumarebo
as of December 31, 2008

FORECAST PRICES AND COSTS

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/YEAR)					AFTER INCOME TAXES DISCOUNTED AT (%/YEAR)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% PER YEAR
	0	5	10	15	20	0	5	10	15	20	(\$/boe)
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	
Proved											
Developed											
Producing	81,473	66,698	56,421	48,959	43,330	44,495	36,159	30,357	26,152	22,990	32.61
Developed											
Non-Producing	100,841	72,090	54,030	42,155	33,992	57,125	40,383	29,955	23,157	18,524	34.07
Undeveloped	<u>935,225</u>	<u>625,409</u>	<u>430,309</u>	<u>303,748</u>	<u>219,330</u>	<u>490,635</u>	<u>320,116</u>	<u>214,567</u>	<u>147,353</u>	<u>103,387</u>	<u>26.89</u>
Total Proved	1,117,539	764,197	540,760	394,862	296,652	592,255	396,658	274,879	196,662	144,901	27.99
Total Probable	<u>1,430,308</u>	<u>877,189</u>	<u>551,053</u>	<u>354,105</u>	<u>232,428</u>	<u>731,259</u>	<u>437,024</u>	<u>266,452</u>	<u>165,419</u>	<u>104,347</u>	<u>19.12</u>
Total Proved Plus Probable	<u>2,547,847</u>	<u>1,641,386</u>	<u>1,091,813</u>	<u>748,967</u>	<u>529,080</u>	<u>1,323,514</u>	<u>833,682</u>	<u>541,331</u>	<u>362,081</u>	<u>249,248</u>	<u>22.68</u>

TOTAL FUTURE NET REVENUE

Values represent 100% of PetroCumarebo
(UNDISCOUNTED)
as of December 31, 2008

FORECAST PRICES AND COSTS

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$) ⁽¹⁾	Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Total Proved Reserves	2,065,361	687,765	95,455	120,505	3,155	1,117,539	525,283	592,256
Total Proved Plus Probable Reserves	4,736,045	1,577,710	226,043	255,322	4,735	2,547,848	1,224,332	1,323,515

Note:

(1) Excludes municipal taxes of M\$40,942 for Proved Reserves and M\$94,383 for Proved Plus Probable Reserves.

**FUTURE NET REVENUE
BY PRODUCTION GROUP**

Values represent 100% of PetroCumarebo
as of December 31, 2008

FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	UNIT VALUE BEFORE INCOME TAX (discounted at 10%/year) (\$/boe)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	438,334	29.78
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	102,426	20.31
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	540,760	27.99
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	675,231	26.44
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	416,582	16.57
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	1,091,813	22.68

Pricing Assumptions

Huddleston employed the following pricing and inflation rate assumptions as of December 31, 2008, in estimating PetroCumarebo's reserves data using constant prices and costs.

	Oil			Natural Gas	
	WTI \$ \$US/BBL (1)	Edmonton \$US/bbl	Corporate Average \$US/bbl	AECO-C \$/Btu	Corporate Average \$US/Mcf ⁽²⁾
Dec. 31, 2008	44.60	n/a	44.95	n/a	3.14

Notes:

- (1) PetroCumarebo receives a contractually determined price for oil that was, on average, \$101.40 per barrel during 2008. PetroCumarebo receives, on average, approximately 100% of WTI for its oil production. The properties owned by PetroCumarebo produce light sweet crude that sells at a premium to most of the oil produced in Venezuela.
- (2) Gas prices for PetroCumarebo include consideration for NGL and averaged \$7.50/Mcf in 2008. PetroCumarebo receives, on average, approximately 7% of WTI oil prices for its gas production.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS ⁽¹⁾

**as of December 31, 2008
FORECAST PRICES AND COSTS**

Year	Inflation % Rates / Year	WTI Cushing Oklahoma \$US/bbl	Natural Gas Liquids at Edmonton (\$/bbl)	PetroCumarebo \$US/bbl	PetroCumarebo \$US/Mcf	BC Spot Plant-gate or Canwest Plant- gate \$US/Btu
Historical						
2008 ⁽²⁾	3.800	99.57	n/a	101.40	7.50	n/a
Forecast						
2009	1.000	54.90	n/a	56.55	3.84	n/a
2010	2.500	68.71	n/a	70.77	4.81	n/a
2011	2.250	76.19	n/a	78.48	5.33	n/a
2012	2.125	87.85	n/a	86.69	6.15	n/a
2013	2.125	96.75	n/a	91.57	6.77	n/a
Thereafter ⁽³⁾	2.125	+2.125%/year	n/a	+2.125%/year	+2.125%/year	n/a

Notes:

- (1) Price forecasts used to generate the above projections are based on the average of pricing forecasts published by Gilbert Lausten Jung Associates Ltd., Sproule & Associates, DeGolyer and MacNaughton Canada Limited and Aston Jenkins Mann & Associates effective December 31, 2008, all of whom are independent qualified reserves evaluators for the purposes of NI 51-101. Oil prices for PetroCumarebo were adjusted to reflect differentials as discussed under Note (1) for the constant price case and have been further reduced to reflect the effects of the Venezuelan Windfall Profits Tax (where applicable). Gas prices were calculated as shown under Note (2) for the constant price case.
- (2) PetroCumarebo's weighted average realized sales prices for the year ended December 31, 2008, was \$101.40/bbl for crude oil. Natural gas sales were on average \$7.50/Mcf for the year ended December 31, 2008.
- (3) The Conversion Contract extends through April 1, 2026, and no projections have been included beyond that point.

Reconciliation of Changes in Reserves

The following table sets forth a reconciliation of PetroCumarebo's total gross proved, probable and proved plus probable reserves as at December 31, 2008, against such reserves as at December 31, 2007, based on forecast price and cost assumptions.

**RECONCILIATION OF PETROCUMAREBO GROSS RESERVES
BY PRODUCT TYPE
FORECAST PRICES AND COSTS**

Factors	LIGHT AND MEDIUM CRUDE OIL			HEAVY OIL			ASSOCIATED AND NON- ASSOCIATED GAS		
	Gross Proved (Mbbls)	Gross Probable (1) (Mbbls)	Gross Proved Plus Probable (Mbbls)	Gross Proved (Mbbls)	Gross Probable (1) (Mbbls)	Gross Proved Plus Probable (Mbbls)	Gross Proved (MMcf)	Gross Probable (1) (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2007	18,285	14,866	33,151	Nil	Nil	Nil	80,263	187,328	267,591
Extensions and Improved Recovery	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Technical Revisions ⁽²⁾	(602.6)	Nil	(602.6)	Nil	Nil	Nil	(4,766)	Nil	(4,766)
Discoveries	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Acquisitions	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Dispositions	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Economic Factors ⁽³⁾	Nil	(835)	(835)	Nil	Nil	Nil	Nil	(12,218)	(12,218)
Production	389.2	Nil	389.2	Nil	Nil	Nil	5,457	Nil	5,457
December 31, 2008	17,293	14,031	31,324	Nil	Nil	Nil	70,040	175,110	245,150

Notes:

- (1) Probable reserves exclude consideration for risk adjustments.
- (2) The technical revisions to reserves were the result of the drilling operations conducted by PetroCumarebo and the performance of existing completions. Reserves for some locations in both the Proved and Probable categories have been eliminated from the Huddleston Reports as a result of increased drilling costs and decreased projections of future product prices, resulting in uneconomic recoveries.
- (3) Economic factors include the loss of reserves for some locations as a result of increased drilling costs and decreased projections of future product prices, resulting in uneconomic recoveries. In addition, some reserve quantities have been excluded as a result of not being recoverable over the life of the joint venture

ADDITIONAL INFORMATION RELATING TO RESERVES DATA OF PETROCUMAREBO

Undeveloped Reserves

The following tables set forth the gross (100%) proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to PetroCumarebo's assets for the years ended December 31, 2008, 2007 and 2006 and, in the aggregate, before that time based on forecast prices and costs. A comparison of net volumes may not provide a meaningful disclosure as a result of changes in the type of ownership in the PetroCumarebo properties.

PROVED UNDEVELOPED RESERVES

Year	LIGHT AND MEDIUM CRUDE OIL (Mbbl)		HEAVY OIL (Mbbl)		ASSOCIATED AND NON- ASSOCIATED GAS (MMcf)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
Prior thereto	19,638	19,638	Nil	Nil	60,987	60,987
2006	1,692	21,330	Nil	Nil	7,450	68,437
2007	Nil	16,288	Nil	Nil	Nil	65,435
2008	Nil	14,259	Nil	Nil	Nil	58,412

PROBABLE UNDEVELOPED RESERVES

Year	LIGHT AND MEDIUM CRUDE OIL (Mbbl)		HEAVY OIL (Mbbl)		ASSOCIATED AND NON- ASSOCIATED GAS (MMcf)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
Prior thereto	19,266	19,266	Nil	Nil	167,117	167,117
2006	2,254	21,520	Nil	Nil	31,148	198,265
2007	Nil	14,866	Nil	Nil	Nil	183,935
2008	Nil	14,030	Nil	Nil	Nil	171,717

Proved and probable undeveloped reserves have been estimated in accordance with procedures and standards contained in the Canadian Oil & Gas Evaluation Handbook. PetroCumarebo has areas where multiple zones have been assigned reserves in a well. Once the currently producing zones are depleted, capital will be spent re-completing the well in another zone. Some of these expenditures are planned to occur in 2010 and beyond, the timing to be dictated by the predicted reserve life for the currently producing zones.

A number of factors that could result in delayed or cancelled development of PetroCumarebo's undeveloped reserves are as follows:

- changing economic conditions (due to pricing, royalty structure, operating and capital expenditure fluctuations);
- changing technical conditions (production anomalies, such as accelerated depletion);
- multi-zone developments (a prospective formation completion may be delayed until the initial completion is no longer economic);
- a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and
- surface access issues (landowners, regulatory approvals).

Proved Undeveloped Reserves

Proved undeveloped reserves are generally those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells farther away from PetroCumerabo gathering systems. In addition, such reserves may relate to planned infill drilling locations.

Probable Undeveloped Reserves

Probable undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production.

Significant Factors or Uncertainties Affecting Reserves Data

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, commodity prices and economic conditions. PetroCumarebo's reserves are evaluated by Huddleston.

Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, commodity prices, economic conditions and governmental restrictions. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. PetroCumarebo's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

The Corporation has relied upon PetroCumarebo for the delivery of information and disclosure, and therefore, the Corporation is only able to disclose oil and gas information as it pertains to its interest in PetroCumarebo to the extent that the information and disclosure has been provided by PetroCumarebo to PetroFalcon. As a result, certain continuous disclosure for the year ended 2008 will vary from that provided in 2007, including continuous disclosure relating to oil and gas operations.

Future Development Costs

The following table outlines development costs deducted in the estimation of future net revenue attributable to proved reserves (in total) estimated using forecast prices and costs and proved plus probable reserves (in total) estimated using forecast prices and costs. Values include drilling and completion, pipeline and facilities and abandonment costs.

	Forecast Prices and Costs	
	Total Proved Reserves	Total Proved Plus Probable Reserves
	(M\$)	(M\$)
2009	3,682	3,682
2010	7,257	16,538
2011	14,935	20,760
2012	28,692	44,027
2013	19,716	36,152
Total for All Years Undiscounted	123,659	290,669

PetroCumarebo has established a \$29.1 million capital program to fund its exploration and development activities for 2009.

PetroCumarebo has available three sources of funding to finance its capital expenditure program: internally generated cash flow from operations, debt financing when appropriate and cash calls to shareholders (Vincler Venezuela and CVP).

PetroFalcon has available four sources of funding to finance its portion of PetroCumarebo’s capital expenditure program, if required: dividends from PetroCumarebo and Baripetrol, cash on hand, debt financing when appropriate and new equity issues, if available on favourable terms.

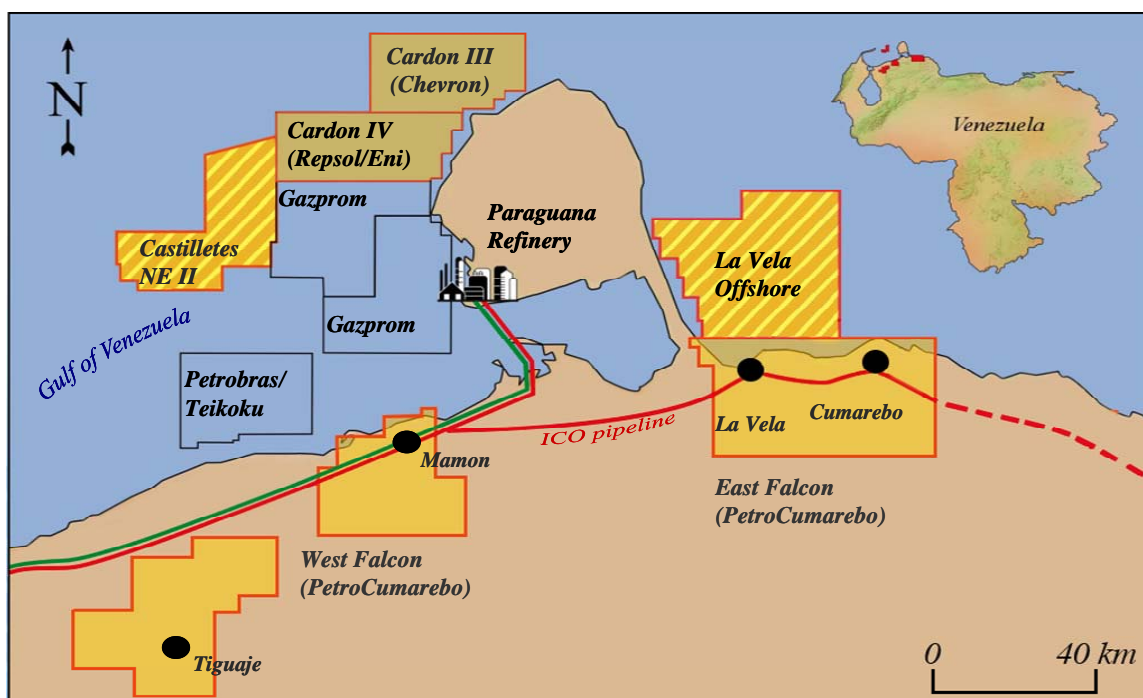
Additional Information Concerning Abandonment and Reclamation Costs

PetroCumarebo estimates well abandonment and reclamation costs for surface leases, wells, facilities and pipelines based on its previous experience, current regulations, costs, technology and industry standards area by area. Such costs are included in the Huddleston Reports as deductions in arriving at future net revenue. The expected total abandonment costs for one (1) net well (including producing, non-producing and service wells) and for four (4) gross/net facilities are summarized in the net of estimated salvage value calculated without discount and using a discount rate of 10%, is as follows:

	Forecast Pricing - 100% of PetroCumarebo		
	Proved	Proved plus	Proved plus
	NPV 10%, \$M	NPV 0%, \$M	NPV 10%, \$M
Wells with reserves assigned	1,265	5,143	1,488
Wells & Facilities with no reserves assigned	Nil	Nil	Nil
Total abandonment and reclamation cost provision	1,265	5,143	1,488
Portion forecast to be paid during the next three years	405	493	405

OIL AND GAS INFORMATION FOR PETROCUMAREBO

As described under “*General Development of the Business - Three Year History - 2006*”, PetroFalcon, through its wholly-owned foreign subsidiary Vincler Venezuela, entered into the Conversion Contract that created PetroCumarebo. For additional information on the corporate structure of PetroFalcon, see the table under the heading “*The Corporation*” and subheading “*Intercorporate Relationships*”. Pursuant to the terms of the Conversion Contract, Vincler Venezuela’s oil and gas interests are held through its 40% ownership in PetroCumarebo. Accordingly, the terms PetroFalcon, Vincler Venezuela and PetroCumarebo may be used interchangeably in this section and are intended to refer to the above described relationship between the entities.



Note: The picture above is a close-up of the Paraguana Peninsula and Falcon State in north-western Venezuela. The solid onshore blocks are operated by PetroCumarebo, pursuant to which PetroFalcon holds a 40% interest through Vinccler Venezuela. The striped offshore blocks are potential new business for PetroFalcon. This acreage surrounds the PRC, which is connected to the East and West Falcon blocks via PDVSA pipelines. For a map showing the location of the Colon Block, please see “Oil and Gas Information Relating to Baripetrol”.

Oil and Gas Properties

PetroCumarebo, East and West Falcon Blocks

PetroFalcon’s core business is its 40% interest in PetroCumarebo, which operates the East Falcon Block and West Falcon Block in north-western Venezuela. Most of PetroCumarebo’s 2008 net production and December 31, 2008, oil and natural gas, natural gas liquids reserves are attributable to the East Falcon Block and West Falcon Block. The area contained in the East Falcon Block was initially explored by Creole Petroleum, a predecessor of Exxon, which drilled numerous exploration wells between the 1920s and the 1950s. These wells resulted in the discovery and development of a commercial oil field, Cumarebo, as well as an oil and gas field currently in the first stages of appraisal and development, La Vela, and an undeveloped gas field, Las Pailas.

East Falcon Block

Cumarebo Field

The Cumarebo Field was discovered in 1931 by Creole Petroleum and has produced over 60 MMbbls of oil from 13 separate clastic reservoirs. These reservoirs range in depth from 450 to 5,800 feet due to the structural complexity of the field. Reservoir porosities average between 24% and 30%, and permeabilities range from 100 millidarcies to 1 Darcy (a measurement of permeability). The field continues to be a primary asset for PetroCumarebo with an average production in December 2008 of 162 bbl/d of 46° API sweet, crude oil and 10.2 MMcf/d of rich natural gas.

In 2006, Vinccler Venezuela upgraded the existing facilities in the Cumarebo Field in order to commence natural gas production. In August 2006, the ICO pipeline was completed to the Cumarebo Field and PetroCumarebo

commenced natural gas deliveries from the Cumarebo Field into the ICO pipeline. Initial additional delivery of hydrocarbons was approximately 12 MMcf/d of natural gas and 285 bbl/d of oil from the Cumarebo Field in the East Falcon Block to the PRC.

On December 6, 2006, PDVSA's ICO pipeline experienced a joint rupture, forcing PDVSA to close the pipeline section leading to PetroCumarebo's production in the Cumarebo and La Vela fields. As a result, most of the field natural gas production during 2007 was temporarily shut-in, but its wells and facilities were unaffected. The pipeline section was repaired by PDVSA and PetroCumarebo resumed natural gas deliveries from the Cumarebo Field on February 23, 2008.

In 2008, PetroCumarebo drilled a total of five wells in the Cumarebo Field: three development wells and two appraisal wells. This drilling campaign resulted in one successful gas well, one uncommercial gas well, two wells which failed to meet the main objective but that will be tested in other sands and one dry hole.

La Vela Field

In 1932, Creole Petroleum drilled five shallow wells at the La Vela Field searching for shallow oil on the crest of a large thrust anticline that is approximately 10 kilometres in length, but found only gas after LV-2X experienced a gas blow-out. In the mid 1980s, PDVSA drilled three deep wells and tested four productive Miocene formations in the LV-6X, LV-7X and LV-8X wells. Both oil and associated gas were tested in clastic and carbonate reservoirs but due to the lack of an available gas market, the field was not developed. After reactivation of the field under the terms of the East Falcon OSA and now under PetroCumarebo, fifteen new wells have been drilled in the field. The average production from this field in December 2008 was 264 bbl/d and 1.7 MMcf/d. Cumulative production to December 2008 is over 600,000 barrels.

In 2005, Vinccler Venezuela drilled two deep wells, the LV-9 and LV-10. These wells were the first wells drilled in La Vela Field in almost 20 years and were designed to test proven and probable oil and gas reservoirs in both the hanging wall and footwall of the structure.

The LV-10 well was drilled to 9,995 feet on the crest of the southern part of the La Vela anticline and discovered a shallow oil and natural gas accumulation between 2,100 and 2,300 feet. Additionally, the well confirmed the presence of hydrocarbons and the continuity of the reservoirs previously discovered by PDVSA, in the range of approximately 5,100 to 7,600 feet deep. The discovery of the new shallow reservoirs allowed PetroCumarebo to begin an aggressive drilling campaign during 2007, aimed at developing these shallow reserves. PetroCumarebo drilled 10 new shallow wells in the southern La Vela anticline between 2,500 and 3,500 feet and one deeper well to 8,500 feet, designed to further investigate the continuity of the deeper reservoirs discovered in the mid 1980s by PDVSA.

The 2007 drilling campaign resulted in the discovery of new shallow gas and oil reservoirs, at depths ranging between 1,000 and 3,500 feet in the southern part of the field.

In 2008, PetroCumarebo continued its drilling campaign in La Vela, drilling two successful development oil wells in the southern part of the field, in reservoirs located at depths between 5,000 and 6,500 feet.

West Falcon Block

The West Falcon Block originally covered a large area located within the Falcon Basin of north-western Venezuela, immediately east of the prolific Maracaibo basin and west of the East Falcon Block. In March 2006, Vinccler Venezuela acquired 100% of the West Falcon Block from Samson International, LLC. The area was subsequently divided into two smaller blocks and contributed to PetroCumarebo. To date, seven relatively shallow fields (1,000-6,000 feet) have been discovered within the West Falcon Block. These fields have had a cumulative production from Miocene and Pliocene clastic reservoirs of 110 MMbbls and 60 Bcf. There are currently two fields on production, Tiguaje and Mamon, with an average production of 292 bbl/d during

December 2008. PetroFalcon believes there may be additional fields that warrant reactivation in this area. There is also a high quality portfolio of low to moderate risk exploration projects in the West Falcon Block. One of these prospects, Los Moroches, is being targeted for evaluation in 2009. During 2008, PetroCumarebo performed remedial work to the access road to the field in order to perform a long-term production test and evaluate the potential of this accumulation. Production from these new prospects can be produced via existing natural gas and oil pipelines that cross the West Falcon Block and provide ready access to markets for existing and new production.

Other PetroCumarebo Prospects

Las Pailas

In addition to the Cumarebo and La Vela fields, there are several tested and untested prospects in the East Falcon Block. The Las Pailas prospect is located south of the Cumarebo Field on a large surface anticline that was delineated originally by surface geology and then by 2D seismic and drilling. In 1947, Creole Petroleum drilled and tested the well Las Pailas 1 at 9 MMcf/d of dry gas from an Oligocene age section of carbonates and clastics. In 1982, PDVSA drilled an offset well that also tested natural gas from the same formation.

San Patricio

The San Patricio prospect is a relatively simple faulted anticline, immediately east of the Cumarebo Field and was tested in 1949 by Creole with the San Patricio-1X well. Electric logs from that well indicate 150 feet of natural gas in the Socorro 15 and 16 sands of Middle Miocene age. During 2008, PetroCumarebo constructed the location and began the permitting process with MEP for a new 5,200 feet well close to San Patricio-1X in order to test the prospective intervals shown in the logs.

La Cruz

The La Cruz prospect is a group of compressive structures located east of a large northwest-southwest striking normal fault that separates the prospective area from the La Vela Field. The structures can be seen in several 2D seismic lines both onshore east of the field and offshore to the northeast of the field. The same productive Middle and Upper Miocene reservoirs of the La Vela Field represent the main objectives for this prospect. Seismic information shows several bright amplitude reflections that indicate the possibility of hydrocarbon accumulations in these structures.

La Vela North and South

These prospects are the footwall northern and southern flanks of the La Vela thrust anticline. The La Vela North prospect is located in the northern part of the La Vela Field and is associated with the northern closure of the field, where the LV-8X and LV-9 were drilled. The La Vela South prospect is in the north-western flank of the southern La Vela closure, where the LV-6X and LV-10 through LV-23 wells have been drilled. The La Vela North prospect has already been tested by the LV-8X well, which crossed the main Guadalupe thrust and entered the footwall structure at 3,550 feet, finding oil and gas reservoirs at 4,600 and 5,008 feet in the Caujarao formation. Electric logs from this well also show additional reservoir potential in a Socorro formation section between 5,500 and 6,500 feet, which has been tested successfully in offshore wells of the La Vela embayment, approximately 4 to 8 kilometres north of the LV-8X well. PetroCumarebo is currently permitting a twin well to LV-8X to be drilled in mid-2009 in order to further evaluate the La Vela north structure.

Cumarebo Field Adjacent Areas

PetroFalcon has defined two oil and natural gas prospects adjacent to the Cumarebo Field, in the northern and southern flanks of the Cumarebo anticline. These prospects were defined by both 2D and 3D seismic and a surface geochemistry survey acquired by PetroFalcon in 2004. Structurally, the prospects are conformed by

dipping beds under the Cumarebo northern thrust and southern back-thrust, which serve as trapping mechanisms. In 2005, Vinccler Venezuela completed a 2D seismic survey at the Cumarebo and La Vela fields and adjacent prospects. The seismic information has been interpreted and possible locations have been picked to evaluate these prospects.

Los Moroches

The Los Moroches prospect is located in the West Falcon Block, and it is conformed by a fault-bounded anticline in which three wells have already been drilled, finding oil and gas bearing reservoirs in Middle and Upper Miocene reservoirs, at depths between 3,500 and 4,200 feet. The first well, LM-1X, was drilled by Texaco in 1956 and found mostly gas reservoirs. The well was plugged and abandoned because of the lack of a gas market. Samson, a predecessor to Vinccler Venezuela in West Falcon, then drilled a second well, LM-2X, next to the first one and confirmed the potential of the reservoirs. The well tested 330 bbl/d from a sand package at 4,136 to 4,152 feet, and 1.9 and 6.6 MMcf/d from sands at 3,996 and 3,527 feet, respectively. The third well, LM-3X, was drilled down dip from the first two wells and was found to be water-bearing. During 2008, PetroCumarebo started building the required infrastructure to perform a long term production test of these reservoirs in order to assess their potential and to design a proper development plan.

Cuarenta Pesos

The Cuarenta Pesos prospect is constituted by a four-way closure anticline located northwest of the producing Tiguaje Field in the West Falcon Block. The prospect has been defined with 2D seismic and has not yet been tested by drilling. A drilling location has been selected on the basis of the seismic interpretation. This location will be submitted for government approval after 2009. Target reservoirs include the Basal La Puerta sands of Middle to Late Miocene age at depths between 4,000 and 4,500 feet.

San Agapito

The San Agapito prospect is a four-way closure anticline associated with the convergence of two fault systems, the Urumaco northwest-southeast trending fault that represents the western limit of the Urumaco trough, and the Oca fault system, which trends generally east-west across the southern region of the West Falcon Block. The prospect is defined by 2D seismic and has not been drilled. Further seismic reprocessing and interpretation is required before selecting a proper drilling location to test this prospect. The reservoir targets are constituted by Middle and Late Miocene Socorro and Urumaco formations, which produce oil and gas in the Mamon Field, situated approximately 25 kilometres north of the prospect.

El Cerro

The El Cerro prospect is located northwest of the Mamon Field and is composed by a southwest-northeast trending thrust anticline, associated with recent inversion of the Urumaco trough. Reservoir targets are Oligocene or late Eocene carbonates and clastics, and possible Cretaceous rocks. Depth of the prospect is on the order of 15,000 feet. Further seismic reprocessing and interpretation is required in order to plan a drilling location.

PetroCumarebo 2008 Capital Expenditures

The following table outlines PetroCumarebo's capital expenditures for the year ended December 31, 2008, which were met by the mixed company's cash flow or other sources of financing, without cash calls to PetroFalcon. PetroCumarebo's initial capital expenditures budget of \$30 million was revised in the second half of 2008 to \$42.5 million due to operational delays and the strengthening of the implied market rate for the Bolivar against the US dollar (approximately 80% of drilling costs are Bolivar-based). Actual capital spending for 2008 was \$40.7 million.

(\$000s)	Gross Initial Budget 2008	Gross Actual Incurred 2008
Drilling and Work-overs		
- La Vela	9,400	14,541
- Cumarebo	8,700	21,549
- West Falcon	400	-
- Total Drilling and Work-overs	18,500	36,090
Processing Facilities and Infrastructure		
- La Vela	4,230	600
- Cumarebo	3,770	945
- West Falcon	3,500	3,065
Total Processing Facilities and Infrastructure	11,500	4,610
Total Capital Budget	30,000	40,700

Exploration and Development Activities

During the year, PetroCumarebo drilled seven wells: three development wells and two appraisal wells in the Cumarebo Field and two development wells in the La Vela Field. This drilling campaign resulted in two successful oil wells in the southern part of the La Vela Field, one successful gas well, one non-commercial gas well, two wells that failed to meet their main objective but that will be tested in other sands, and one dry hole in the Cumarebo Field. PetroCumarebo's gross production increased from a monthly average of 2,221 boe/d in January 2008 to 2,808 boe/d in December 2008. A summary of the drilling results is presented below.

La Vela Drilling

The LV-22 well was drilled as a J-type well in the southern part of the La Vela Field. Its objective was to test the Early Miocene Cerro Pelado section which has been on production in nearby LV-6X well, at a steady rate of approximately 140 bbl/d. The well was spudded on August 18, 2008, and reached a final depth of 6,200 feet measured depth on September 27, 2009 entering the Oligocene Pedregoso formation. The well was completed in the Cerro Pelado formation in seven intervals between 5,340 and 5,748 feet. Initial production from this well was 80 bbl/d. The well started declining and at the end of the year it was not producing and therefore was closed. In February 2009, it was determined that the well is plugged with paraffin and asphaltenes and thus a cleaning job is being planned to open the well to flow.

The LV-23 well was drilled as a vertical well at a location approximately 300 meters south of the LV-6X well. The objective of the well was to develop proven reserves in the Cerro Pelado reservoir producing already in LV-6X and to evaluate the prospectivity of the Pedregoso section seen by both LV-6X and LV-22. The well was spudded on October 10, 2008, and reached a final depth of 6,550 feet measured depth on November 17, 2008. The well found the expected prospective sections in both the Cerro Pelado and Pedregoso formations and was completed in the Pedregoso formation in six intervals between 6,207 and 6,405 feet with an initial production of 460 bbl/d. After reaching a peak of 580 bbl/d, the well started to decline due to high paraffin content and by the end of 2008 was producing 180 bbl/d.

Cumarebo Drilling

Five wells were drilled in 2008 in the Cumarebo Field, namely CU-169, CU-170, CU-171, CU-172 and CU-173. CU-171 and CU-173 were considered appraisal wells.

The CU-169 well was drilled vertically in January 2008 targeting a small footwall reservoir in sand 10. The main sand 10 target was found partially faulted and only 5 feet of gas sand was encountered. However, this was on the upthrown side of the normal fault, thus failing the main objective.

During May 2008, the well was perforated in the top of sand 10 in the 2,956-2,960 feet interval, did not produce and was closed. On January 9, 2009, the CU-169 well was restarted, flowed only small amounts of gas and was therefore closed on January 19, 2009. The well will be worked over and re-completed to sand 9 or 8 during 2009.

The CU-170 well was drilled as a development well for reservoir 015-C155, a gas and condensate reservoir in the north-eastern part of the field. The well was drilled as a J-type well, paralleling the trajectory of CU-141, a well drilled in 1954 but not tested because of the lack of a market for gas at that time in the region. The well encountered 94 feet of gas-bearing sand at a depth of 5,296 feet in the 015 C155 Reservoir. The well started on production with rates of 190 bbl/d and 4.6 MMcf/d and declined to 57 bbl/d, 650 Mcf/d and 38 bbl/d of water in four months. The well was closed on January 12, 2009, because of the water content.

The CU-171 well is an appraisal well directionally drilled from the same location as CU-170, but directed towards the north-east, with the objective of extending the 15-sand gas and condensate 015 C155 reservoir. The well reached a total depth of 6,089 feet and encountered 76 feet of hydrocarbon sand at a depth of 5,690 feet. It was perforated in intervals 5,697-5,744 feet, 5,751-5,754 feet and 5,778-5,782 feet with no flow. The well was worked over and shot with propellant and no production was obtained. The well is closed and under observation.

The CU-172 well is a development well with the objective of draining the remaining oil reserves found in an oil rim currently being produced by the CU-20 well in the central part of the field. The objective of the remaining oil rim reserves in sand 12 was not reached as the well fell on the gas cap. The interval at 1,458-1,512 feet was perforated and initially produced at a very small gas rate when opened and subsequently died. The well is currently suspended.

The well CU-173 was drilled in order to test a probable reservoir in the 15 sand (P-15-C166-1), in an area between two faults where previously two wells (CU-165 and CU-166) were lost due to high gas kicks when entering sand 15. The well was drilled to a depth of 5,400 feet. At this depth, the drilling stem was stuck in the hole after reaching sand 15 and, having observed good gas shows in the mudlogs, it was decided to plug the well, leaving part of the drilling stem in the hole. The well was completed and perforated in sand 13 but obtained very little gas and water. Sand 13 was isolated, and the well was perforated in sands 12 and 11. However, it did not flow, although the logs show good prospectivity in these sands. The well is a candidate for a work-over in early 2009 with a swabbing unit in order to try to induce the well to production.

**STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION FOR
BARIPETROL**

Reserves Data Relating to Baripetrol

SUMMARY OF OIL AND GAS RESERVES

Values represent 100% of Baripetrol
as of December 31, 2008

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(MMcf)	(MMcf)	(Mbbbl)	(Mbbbl)
Proved								
Developed Producing	15,168	10,117	Nil	Nil	15,012	10,013	Nil	Nil
Developed Non-Producing	0	0	Nil	Nil	0	0	Nil	Nil
Undeveloped	<u>6,000</u>	<u>4,002</u>	<u>Nil</u>	<u>Nil</u>	<u>0</u>	<u>0</u>	<u>Nil</u>	<u>Nil</u>
Total Proved	21,168	14,119	Nil	Nil	15,012	10,013	Nil	Nil
Total Probable	<u>10,611</u>	<u>7,077</u>	<u>Nil</u>	<u>Nil</u>	<u>13,000</u>	<u>8,671</u>	<u>Nil</u>	<u>Nil</u>
Total Proved Plus Probable	<u>31,780</u>	<u>21,197</u>	<u>Nil</u>	<u>Nil</u>	<u>28,012</u>	<u>18,684</u>	<u>Nil</u>	<u>Nil</u>

Notes:

- (1) Baripetrol's 100% ownership before royalties.
(2) Baripetrol's 100% ownership after royalties.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE

Values represent 100% to Baripetrol
as of December 31, 2008

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED					AFTER INCOME TAXES DISCOUNTED					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% PER YEAR (\$/boe)
	AT (%/YEAR)					AT (%/YEAR)					
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	
Proved											
Developed Producing	291,726	234,507	195,023	166,617	145,414	198,762	159,880	133,053	113,765	99,376	19.28
Developed Non-Producing	0	0	0	0	0	0	0	0	0	0	0.00
Undeveloped	<u>75,372</u>	<u>59,745</u>	<u>48,126</u>	<u>39,258</u>	<u>32,332</u>	<u>44,295</u>	<u>33,972</u>	<u>26,365</u>	<u>20,616</u>	<u>16,176</u>	<u>12.03</u>
Total Proved	367,098	294,252	243,149	205,875	177,746	243,057	193,852	159,418	134,381	115,552	17.22
Total Probable	<u>146,366</u>	<u>100,002</u>	<u>70,025</u>	<u>49,970</u>	<u>36,164</u>	<u>72,366</u>	<u>44,306</u>	<u>26,716</u>	<u>15,419</u>	<u>8,033</u>	<u>9.32</u>
Total Proved Plus Probable	<u>513,464</u>	<u>394,254</u>	<u>313,174</u>	<u>255,845</u>	<u>213,910</u>	<u>315,423</u>	<u>238,158</u>	<u>186,134</u>	<u>149,800</u>	<u>123,585</u>	<u>13.57</u>

TOTAL FUTURE NET REVENUE

Values represent 100% of Baripetrol
(UNDISCOUNTED)
as of December 31, 2008

CONSTANT PRICES AND COSTS

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)⁽¹⁾	Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	857,044	285,396	164,353	21,728	1,320	367,098	124,042	243,056
Proved, Plus Probable Reserves	1,335,252	444,639	253,042	96,430	959	513,464	198,041	315,423

Note:

(1) Excludes municipal taxes of M\$17,149 for Proved Reserves and M\$26,718 for Proved Plus Probable Reserves.

**FUTURE NET REVENUE
BY PRODUCTION GROUP**

Values represent 100% of Baripetrol
as of December 31, 2008

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES & ARTC (discounted at 10%/year) (M\$)	UNIT VALUE BEFORE INCOME TAX (discounted at 10%/year) (\$/boe)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	243,149	19.28
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	Nil	Nil
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	243,149	19.28
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	313,174	13.57
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	Nil	Nil
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	313,174	13.57

SUMMARY OF OIL AND GAS RESERVES

Values represent 100% of Baripetrol
as of December 31, 2008

FORECAST PRICES AND COSTS

RESERVES CATEGORY	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		NATURAL GAS		NATURAL GAS LIQUIDS	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
	(Mbbbl)	(Mbbbl)	(Mbbbl)	(Mbbbl)	(MMcf)	(MMcf)	(Mbbbl)	(Mbbbl)
Proved								
Developed Producing	15,168	10,117	Nil	Nil	15,012	10,013	Nil	Nil
Developed Non-Producing	0	0	Nil	Nil	0	0	Nil	Nil
Undeveloped	<u>6,000</u>	<u>4,002</u>	<u>Nil</u>	<u>Nil</u>	<u>0</u>	<u>0</u>	<u>Nil</u>	<u>Nil</u>
Total Proved	21,168	14,119	Nil	Nil	15,012	10,013	Nil	Nil
Total Probable	<u>10,611</u>	<u>7,077</u>	<u>Nil</u>	<u>Nil</u>	<u>13,000</u>	<u>8,671</u>	<u>Nil</u>	<u>Nil</u>
Total Proved Plus Probable	<u>31,780</u>	<u>21,197</u>	<u>Nil</u>	<u>Nil</u>	<u>28,012</u>	<u>18,684</u>	<u>Nil</u>	<u>Nil</u>

Notes:

- (1) Baripetrol's 100% ownership before royalties.
- (2) Baripetrol's 100% ownership after royalties.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE

Values represent 100% to Baripetrol
as of December 31, 2008

FORECAST PRICES AND COSTS

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED					AFTER INCOME TAXES DISCOUNTED					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10% PER YEAR (\$/boe)
	AT (%/YEAR)					AT (%/YEAR)					
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	
Proved											
Developed Producing	663,731	513,287	411,908	340,624	288,578	402,254	311,326	250,010	206,855	175,309	34.95
Developed Non-Producing	0	0	0	0	0	0	0	0	0	0	0.00
Undeveloped	202,902	161,639	131,316	108,407	90,677	114,403	89,819	71,802	58,238	47,785	32.81
Total Proved	866,633	674,926	543,224	449,031	379,255	516,657	401,145	321,812	265,093	223,094	34.41
Total Probable	484,905	344,581	253,115	190,997	147,317	248,321	170,867	121,193	88,070	65,239	28.27
Total Proved Plus Probable	1,351,538	1,019,507	796,339	640,028	526,572	764,979	572,011	443,005	353,163	288,333	32.18

TOTAL FUTURE NET REVENUE

Values represent 100% of Baripetrol
(UNDISCOUNTED)
as of December 31, 2008

FORECAST PRICES AND COSTS

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)⁽¹⁾	Development Costs (M\$)	Abandonment and Reclamation Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Total Proved Reserves	1,643,526	547,294	173,717	21,661	1,334	866,633	349,975	516,657
Total Proved Plus Probable Reserves	2,655,255	884,200	269,331	96,089	966	1,351,537	586,558	764,979

Note:

(1) Excludes municipal taxes of M\$32,887 for Proved Reserves and M\$53,132 for Proved Plus Probable Reserves.

**FUTURE NET REVENUE
BY PRODUCTION GROUP**

as of December 31, 2008

FORECAST PRICES AND COSTS

RESERVES CATEGORY	PRODUCTION GROUP	FUTURE NET REVENUE BEFORE INCOME TAXES (discounted at 10%/year) (M\$)	UNIT VALUE BEFORE INCOME TAX (discounted at 10%/year) (\$/boe)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	543,224	34.41
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	Nil	Nil
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	543,224	34.41
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	796,339	32.18
	Heavy Oil (including solution gas and other by-products)	Nil	Nil
	Associated Gas and Non-Associated Gas (including by-products but excluding solution gas from oil wells)	Nil	Nil
	Non-Conventional Oil and Gas Activities	Nil	Nil
	Total	796,339	32.18

Pricing Assumptions

Huddleston employed the following pricing and inflation rate assumptions as of December 31, 2008, in estimating Baripetrol's reserves data using constant prices and costs.

	Oil			Natural Gas	
	WTI \$ \$US/BBL (1)	Edmonton \$US/bbl	Corporate Average \$US/bbl	AECO-C \$/Btu	Corporate Average \$US/Mcf ⁽²⁾
Dec. 31, 2008	44.60	n/a	37.32	n/a	4.46

Notes:

- (1) Baripetrol receives a contractually determined price for oil that was, on average, \$92.50 per barrel during 2008. Baripetrol receives, on average, 92% of WTI for its oil production. The properties owned by Baripetrol produce light sweet crude that sells at a premium to most of the oil produced in Venezuela.
- (2) Gas prices received by Baripetrol include consideration for NGL. Baripetrol received, on average, \$8.80 per Mcf during 2008. Gas prices received by Baripetrol, on average, are approximately 10% of WTI oil prices.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS ⁽¹⁾

as of December 31, 2008

FORECAST PRICES AND COSTS

Year	Inflation % Rates / Year	WTI Cushing Oklahoma \$US/bbl	Natural Gas Liquids at Edmonton (\$/bbl)	Baripetrol \$US/bbl	Baripetrol \$US/Mcf	BC Spot Plant-gate or Canwest Plant- gate \$US/Btu
Historical						
2008 ⁽²⁾	3.800	99.57	n/a	92.50	8.80	n/a
Forecast						
2009	1.000	54.90	n/a	47.52	5.49	n/a
2010	2.500	68.71	n/a	61.19	6.87	n/a
2011	2.250	76.19	n/a	68.60	7.62	n/a
2012	2.125	87.85	n/a	76.34	8.79	n/a
2013	2.125	96.75	n/a	80.87	9.68	n/a
Thereafter ⁽³⁾	2.125	+2.125%/year	n/a	+2.125%/year	+2.125%/year	n/a

Notes:

- (1) Price forecasts used to generate the above projections are based on the average of pricing forecasts published by Gilbert Lausten Jung Associates Ltd., Sproule & Associates, DeGolyer and MacNaughton Canada Limited and Aston Jenkins Mann & Associates effective December 31, 2008, all of whom are independent qualified reserves evaluators for the purposes of NI 51-101. Oil prices for Baripetrol were adjusted to reflect differentials as discussed under Note (1) for the constant price case and have been further reduced to reflect the effects of the Venezuelan Windfall Profits Tax (were applicable). Gas prices were calculated as shown under Note (2) for the constant price case.
- (2) Baripetrol's weighted average realized sales prices for the year ended December 31, 2008, was \$92.50/bbl for crude oil. Natural gas sales were on average \$8.80/Mcf for the year ended December 31, 2008.
- (3) The Conversion Contract extends through April 1, 2026, and no projections have been included beyond that point.

Reconciliation of Changes in Reserves

The following table sets forth a reconciliation of Baripetrol's total gross proved, probable and proved plus probable reserves as at December 31, 2008, against such reserves as at December 31, 2007, based on forecast price and cost assumptions.

**RECONCILIATION OF BARIPETROL GROSS RESERVES
BY PRODUCT TYPE
FORECAST PRICES AND COSTS**

Factors	LIGHT AND MEDIUM CRUDE OIL			HEAVY OIL			ASSOCIATED AND NON-ASSOCIATED GAS		
	Gross Proved (Mbbls)	Gross Probable ⁽¹⁾ (Mbbls)	Gross Proved Plus Probable (Mbbls)	Gross Proved (Mbbls)	Gross Probable ⁽¹⁾ (Mbbls)	Gross Proved Plus Probable (Mbbls)	Gross Proved (MMcf)	Gross Probable ⁽¹⁾ (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2007	21,845	10,176	32,021	Nil	Nil	Nil	15,759	15,474	31,233
Extensions and Improved Recovery	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Technical Revisions ⁽²⁾	2,777	436	3,213	Nil	Nil	Nil	4,996	(2,474)	2,522
Discoveries	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Acquisitions	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Dispositions	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Economic Factors	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Production	3,454	Nil	3,454	Nil	Nil	Nil	5,743	Nil	5,473
December 31, 2008	21,168	10,612	31,780	Nil	Nil	Nil	15,012	13,000	28,012

Notes:

(1) Probable reserves exclude consideration for risk adjustments.

(2) The technical revisions to reserves were the result the performance of existing completions.

ADDITIONAL INFORMATION RELATING TO RESERVES DATA OF BARIPETROL

Undeveloped Reserves

The following tables set forth the gross (100%) proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to Baripetrol's assets for the years ended December 31, 2008, 2007 and 2006, and, in the aggregate, before that time based on forecast prices and costs. Reserves were not prepared by Huddleston prior to 2007.

PROVED UNDEVELOPED RESERVES

Year	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		ASSOCIATED AND NON- ASSOCIATED GAS	
	(Mbbl)		(Mbbl)		(MMcf)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
Prior thereto	n/a	n/a	n/a	n/a	n/a	n/a
2006	n/a	n/a	n/a	n/a	n/a	n/a
2007	5,764	5,764	Nil	Nil	Nil	Nil
2008	236	6,000	Nil	Nil	Nil	Nil

PROBABLE UNDEVELOPED RESERVES

Year	LIGHT AND MEDIUM CRUDE OIL		HEAVY OIL		ASSOCIATED AND NON- ASSOCIATED GAS	
	(Mbbl)		(Mbbl)		(MMcf)	
	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End	First Attributed	Cumulative at Year End
Prior thereto	n/a	n/a	n/a	n/a	n/a	n/a
2006	n/a	n/a	n/a	n/a	n/a	n/a
2007	7,026	7,026	Nil	Nil	13,000	13,000
2008	74	7,100	Nil	Nil	Nil	13,000

Proved and probable undeveloped reserves have been estimated in accordance with procedures and standards contained in the Canadian Oil & Gas Evaluation Handbook. The majority of undeveloped reserves are scheduled to be developed within the next three years.

A number of factors that could result in delayed or cancelled development of Baripetrol's undeveloped reserves are as follows:

- changing economic conditions (due to pricing, royalty structure, operating and capital expenditure fluctuations);
- changing technical conditions (production anomalies such as accelerated depletion);
- multi-zone developments (a prospective formation completion may be delayed until the initial completion is no longer economic);
- a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and
- surface access issues (landowners, regulatory approvals).

Proved Undeveloped Reserves

Proved undeveloped reserves are generally those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells farther away from Baripetrol gathering systems. In addition, such reserves may relate to planned infill drilling locations. The majority of these reserves are planned to be on stream within a three year timeframe.

Probable Undeveloped Reserves

Probable undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production.

Significant Factors or Uncertainties Affecting Reserves Data

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, commodity prices and economic conditions. Baripetrol's reserves are evaluated by Huddleston.

Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, commodity prices, economic conditions and governmental restrictions. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. Baripetrol's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

The Corporation has relied upon Baripetrol for the delivery of information and disclosure, and therefore, the Corporation is only able to disclose oil and gas information as it pertains to its interest in Baripetrol to the extent that the information and disclosure has been provided by Baripetrol to PetroFalcon.

Future Development Costs

The following table outlines development costs deducted in the estimation of future net revenue attributable to proved reserves (in total) estimated using forecast prices and costs and proved plus probable reserves (in total) estimated using forecast prices and costs. Values include drilling and completion, pipeline and facilities and abandonment costs.

	Forecast Prices and Costs	
	Total Proved Reserves	Total Proved Plus Probable Reserves
	(M\$)	(M\$)
2009	21,661	30,091
2010	0	15,851
2011	0	21,979
2012	0	13,961
2013	0	14,207
Total for All Years Undiscounted	22,995	97,055

Baripetrol has established a \$34.4 million capital program for exploration and development activities in 2009.

Baripetrol has available three sources of funding to finance its capital expenditure program: internally generated cash flow from operations, debt financing when appropriate and cash calls to shareholders (Vinccler Venezuela and CVP).

PetroFalcon has available four sources of funding to finance its portion of PetroCumarebo's capital expenditure program, if required: dividends from PetroCumarebo and Baripetrol, cash on hand, debt financing when appropriate and new equity issues, if available on favourable terms.

Additional Information Concerning Abandonment and Reclamation Costs

Baripetrol estimates well abandonment and reclamation costs for surface leases, wells, facilities and pipelines based on its previous experience, current regulations, costs, technology and industry standards area by area. Such costs are included in the Huddleston Reports as deductions in arriving at future net revenue. The expected total abandonment costs for one (1) net well (including producing, non-producing and service wells) and for four (4) gross/net facilities are summarized in the net of estimated salvage value calculated without discount and using a discount rate of 10%, is as follows:

	Forecast Pricing – 100% of Baripetrol		
	Proved NPV 10%, \$M	Proved plus Probable NPV 0%, \$M	Proved plus Probable NPV 10%, \$M
Wells with reserves assigned	329	1,334	329
Wells & Facilities with no reserves assigned	Nil	Nil	Nil
Total abandonment and reclamation cost provision	329	1,334	329
Portion forecast to be paid during the next three years	0	0	0

OIL AND GAS INFORMATION FOR BARIPETROL

Oil and Gas Properties

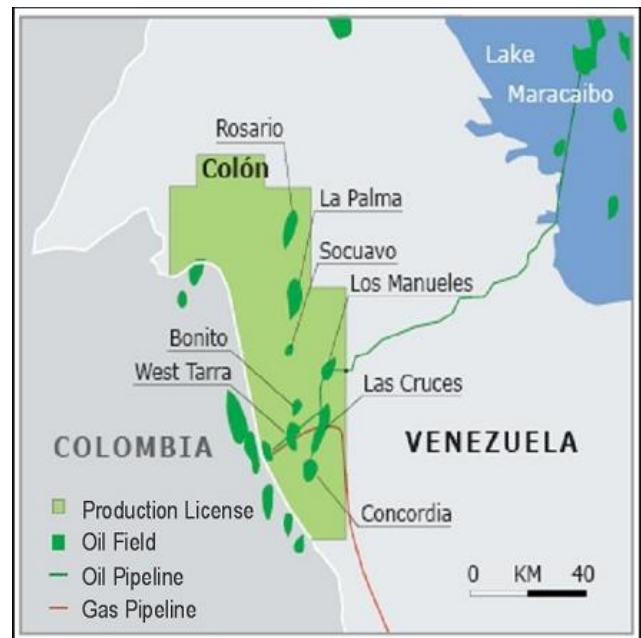
Baripetrol, Colon Block

On February 1, 2008, PetroFalcon acquired 100% of the issued and outstanding shares of Lundin Venezuela, which then owned 5% of Baripetrol, a mixed company formed by the arrangement between CVP, Tecpetrol, Perenco and Lundin Venezuela. Baripetrol operates the Colon Block, an area south of Lake Maracaibo in the prolific Maracaibo Basin, which covers approximately 297,000 acres in western Venezuelan and has current onshore production of oil and natural gas.

The Colon Block has production from seven fields. The main producing field is the La Palma structure, which during 2008 produced an average of approximately 6,230 bbl/d of 28-29° API crude oil. The Colon Block also contains several identified exploration prospects, which will be evaluated by Baripetrol in the near future.

La Palma Field

The La Palma Field is a north-south elongated anticline, which at the Eocene Mirador formation level is divided into two structural combinations, north and south. The field was discovered in 1999 with the LPT-1X well, drilled to a total depth of 10,180 feet. The well was tested in the Upper Mirador member of the Mirador formation at intervals between 8,770 and 8,923 feet, and flowed 1,990 barrels of total fluid with a 2% water cut. To this date, 15 wells have been drilled on this field targeting the Mirador formation. The field is responsible for most of the production from the Colon Block. During 2008, the field produced an average of 6,230 bbl/d from 13 wells. In December 2008, Baripetrol secured a rig and mobilized it to the LPT-16 location in order to start drilling the first of a series of four development wells.



Rosario Field

The Rosario Field was discovered by Shell in 1954 and is also constituted by a compressional anticline running in a north-south direction. Production comes from both the Eocene and Cretaceous levels. During 2008, the field produced an average of 750 bbl/d from five active wells.

Socuavo Field

The Socuavo Field was discovered in 1997 after drilling the Socuavo 1X well through the Tertiary and Cretaceous section, down to a total depth of 13,911 feet. The well tested the Tibu member of the Cretaceous Apon formation. Production also comes from the lower section of the Cretaceous Aguardiente formation. So far, only two wells have been drilled in this field. The 2008 production from this field averaged 90 bbl/d mostly from the SOC-1X well.

Baripetrol plans to acquire a 165-square-kilometer 3D seismic survey over the Socuavo structure in order to improve the current structural interpretation and aid in the location of four more development wells.

Other Colon Block Fields

Other fields in the Colon Block include Las Cruces, Los Manueles, West Tarra and Bonito. These fields are very mature and represent a total of approximately 2,050 bbl/d. The most important is Los Manueles, with an average 2008 oil production of approximately 780 bbl/d.

Baripetrol plans to perform several work-over jobs to improve production in these fields: eight in Los Manueles, one in Bonito and one in West Tarra. No drilling is planned in these areas in 2009.

Other Baripetrol Prospects

La Palma Deep

The La Palma prospect is comprised of three separate structural closures at the Cretaceous level, in the same area as the La Palma Field, already producing from shallower reservoirs. The estimated (P50) area of closure is approximately 39 square kilometers at the Cretaceous Aguardiente Formation level. Other targets include the Apon-Tibu formations also of Cretaceous age and the basement.

Socuavo

The Socuavo prospect has already been drilled with the SOC-1 and SOC-2 wells, both of which encountered hydrocarbon bearing sands in the Paleocene (Catatumbo formation) and Cretaceous sections (Aguardiente formation and the Tibu member of the Apon formation). The field is currently in production from the Aguardiente formation. A 3D seismic survey, planned for 2008, has been delayed by Baripetrol and is now expected in 2010.

La Palma Upper Mirador

The La Palma Upper Mirador prospect is located in the same area as the La Palma Field, which produces mostly from the Lower Mirador formation. The prospect is constituted by thin laterally impersistent channel sands that have been identified by drilling the La Palma wells. There is no plan to drill specifically for these sands, but new wells in the La Palma area will be designed in order to drill through these sands, which can be identified by seismic amplitude anomalies.

Las Cruces East Flank

The Las Cruces East Flank prospect corresponds to the eastern flank of the Las Cruces structure. This flank has already been tested by the T-210 well, which produced 3.9 million barrels before being shut-in. Development of this prospect will probably require more 3D seismic in order to define the shape of the structure and better estimate its potential.

Santa Rosa

The Santa Rosa prospect is located south of the Las Cruces and West Tarra fields. The prospect is a medium size thrust anticline, in which both the forelimb and backlimb can be tested by a single exploration well.

Baripetrol 2008 Capital Expenditures

The following table outlines Baripetrol's capital expenditures for the year ended December 31, 2008, which were met by the mixed company's cash flow or other sources of financing, without cash calls to PetroFalcon. A drilling rig was scheduled to begin operations with Baripetrol in 2008. Due to delays in securing the drilling rig, and in the start-up of the 3D seismic survey, Baripetrol did not spend its full capital budget in 2008. The 2008 budget was subsequently revised to \$22 million. Baripetrol's actual capital spending was \$21.9 million, which included twenty-three work-overs in the Rosario, La Palma, Socuavo, Los Manueles, Bonito and West Tarra fields. Gross production in Baripetrol fell from a monthly average of 10,083 boe/d in January 2008 to 9,550 boe/d in December 2008.

(\$000s)	Gross Initial 2008 Budget	Gross Actual Incurred 2008
Seismic, Drilling and Work-overs		
- Rosario	1,910	-
- La Palma	33,500	8,560
- Socuavo	13,290	4,070
- Los Manueles	1,890	4,680
- Bonito	370	990
- West Tarra	590	3,040
- Total Drilling and Work-overs	51,550	21,340
Processing Facilities and Infrastructure		
- Rosario	1,640	-
- La Palma	2,350	560
- Socuavo	1,430	-
- Los Manueles	1,140	-
- Bonito	1,000	-
- West Tarra	990	-
- Total Processing Facilities and Infrastructure	8,550	560
Total Capital Budget	60,100	21,900

ADDITIONAL INFORMATION

Forward Contracts

PetroFalcon may use certain financial instruments to hedge its exposure to commodity price fluctuations on a portion of the Mixed Companies' crude oil, natural gas, and natural gas liquids production. PetroFalcon currently has no hedges in place.

Income Tax Horizon

During the year ended December 31, 2008, PetroFalcon recorded no income tax expense as the Company had no taxable income for the period. During the year ended December 31, 2007, PetroFalcon recorded current income tax of \$81,927.

At December 31, 2008, the Company had consolidated carry forward losses of \$8,361,620 (equivalent to Bs 47,661,232 at the implied market rate) from Vinccler Venezuela. The Company did not recognize any future income tax asset related to these carry forward losses since it is not likely that the Company will be able to utilize these losses before they begin to expire in 2009.

Vinccler Venezuela files its Venezuelan income tax return using the Venezuelan Bolivar as the reporting currency in accordance with the Venezuelan income tax law that also provides regular adjustments for inflation until December 31, 2008. Vinccler Venezuela recognized the effects of the inflation in non-monetary assets and liabilities through the application of the General Consumer Price Index, based on procedures established in Venezuelan tax legislation. This adjustment for inflation is considered to be a taxable gain or, in the case of deflation, a deductible loss in determining the taxable income. Since the majority of Vinccler Venezuela's net monetary assets are held in US dollars, and the tax return is filed in Venezuelan Bolivars, foreign currency exchange adjustments will produce either a taxable gain or a deductible loss. The variation between the Venezuelan statutory tax rate of 34% and the income tax rate presented in these financial statements is due to the adjustments required for inflation and foreign currency translation. A reconciliation of the consolidated income tax expense for 2008 and 2007 is set forth below:

	2008	2007
	\$	\$
Net loss before taxes	(23,190,057)	(3,505,369)
Combined statutory income tax	29.50%	32.12%
	(6,841,067)	(1,125,925)
Increase (decrease) resulting from:		
Difference in foreign tax rates	(151,976)	12,141
Benefit of tax losses not recognized	604,081	1,828,016
Non taxable transactions	(861,105)	(1,647,577)
Non deductible expenses	5,818,122	950,240
Inflation adjustments (Venezuela)	2,204,837	-
Benefit of recognizing previous years' losses	(772,892)	-
Other	-	65,032
	-	81,927

2009 CAPITAL EXPENDITURES

The Mixed Companies, PetroCumarebo and Baripetrol, operate as independent entities with seconded technical staff from shareholders. The Mixed Companies fund their capital expenditures through their own cash flow, to the extent available, or through cash calls to shareholders, including PetroFalcon, if no other sources of financing are available. The Mixed Company shareholders intend that PetroCumarebo and Baripetrol be self-funding and rely on internally-generated cash flow to fund operations. To date, the Mixed Companies have not made a cash call to PetroFalcon for capital expenditures. This could change if oil and gas price realizations decrease and will be further addressed in future filings if necessary.

Based on prior experience and current oil prices, total 2009 capital expenditures are expected to be self-funded by the Mixed Companies' respective cash flow, and we would not expect the Mixed Companies to make cash calls to PetroFalcon to fund their capital programs.

If oil prices continue to decline and PetroCumarebo and Baripetrol are not able to fund their capital expenditures through their respective cash flow or other forms of financing, the Company's maximum expected commitment for 2009 capital expenditures is limited to the Company's share of the capital expenditure budgets outlined below.

PetroCumarebo 2009 Capital Expenditures:

(\$000s)	Gross Initial Budget 2009
Drilling and Work-overs	
- La Vela	18,110
- Cumarebo	6,610
- West Falcon	-
- Total Drilling and Work-overs	24,720
Processing Facilities and Infrastructure	
- La Vela	2,233
- Cumarebo	1,600
- West Falcon	537
Total Processing Facilities and Infrastructure	4,370
Total Capital Budget	29,090

Note: PetroFalcon holds a 40% interest in PetroCumarebo. Budgeted capital expenditures are shown on a gross basis for PetroCumarebo. PetroFalcon does not expect cash calls from PetroCumarebo for any portion of the 2009 capital expenditures. However, if PetroCumarebo's cash flow is not sufficient to cover its capital expenditures, or if no other sources of financing are available, PetroFalcon could be responsible for 40% of such expenditures.

PetroCumarebo's aggregate initial 2009 capital budget is \$29.1 million, which includes drilling three development wells in La Vela, the San Patricio exploration well and performing one work-over in the Cumarebo Field. PetroCumarebo also plans to construct the La Vela and Cumarebo central process de-bottlenecking facilities.

PetroCumarebo is currently drilling the LV-24 well in the La Vela Field.

Historically, PetroCumarebo has been able to fund its capital expenditures budget through its own cash flow or other forms of financing without cash calls to PetroFalcon.

Baripetrol 2009 Capital Expenditures:

(\$000s)	Gross Initial Budget 2009
Seismic, Drilling and Work-overs	
- Rosario	-
- La Palma	30,351
- Socuavo	-
- Los Manueles	-
- Bonito	-
- West Tarra	-
- Total Drilling and Work-overs	30,351
Processing Facilities and Infrastructure	
- Rosario	-
- La Palma	-
- Socuavo	3,200
- Los Manueles	-
- Bonito	-
- West Tarra	-
- Colina Station	800
- Total Processing Facilities and Infrastructure	4,000
Total Capital Budget	34,351

Note: PetroFalcon holds a 5% interest in Baripetrol. Budgeted capital expenditures are shown on a gross basis for Baripetrol. PetroFalcon does not expect cash calls from Baripetrol for any portion of the 2009 capital expenditures. However, if Baripetrol's cash flow is not sufficient to cover its capital expenditures, or if no other sources of financing are available, PetroFalcon could be responsible for 5% of such expenditures.

Baripetrol's aggregate initial 2009 gross capital budget is US\$34.4 million, which includes drilling four development wells in La Palma, the construction of a natural gas dehydration plant for the Socuavo Field's gas production and the upgrading of facilities in the La Colina flow station. At current oil prices, Baripetrol is expected to fund these capital expenditures from operating cash flow without cash calls to PetroFalcon.

Baripetrol is currently drilling the LPT-16 well in the La Palma Field.

Historically, Baripetrol has been able to fund its capital expenditures budget through its own cash flow or other forms of financing without cash calls to PetroFalcon.

DIVIDENDS OR DISTRIBUTIONS

Since incorporation, PetroFalcon has not paid any cash dividends or distributions on any of its securities. Dividends on its securities will be paid solely at the discretion of PetroFalcon's board of directors after taking into account the financial condition of PetroFalcon and the economic environment in which it is operating. No dividends are expected to be paid in the foreseeable future.

DESCRIPTION OF CAPITAL STRUCTURE

PetroFalcon is authorized to issue an unlimited number of common shares, of which 158,501,120 are issued and outstanding as of the date of this AIF, and an unlimited number of preferred shares, of which none have been issued as of the date of this AIF. The following is a general description of the material rights, privileges, restrictions and conditions attached to each class of shares.

Common Shares

The holders of common shares are entitled to receive notice of, to attend and vote at any meetings of the shareholders, to receive such dividends declared by the board of directors and to receive the remaining property of the Corporation on dissolution after creditors and holders of the preferred shares outstanding at the time have been satisfied.

Preferred Shares

The Corporation is authorized to issue an unlimited number of preferred shares issuable in series, each series consisting of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the board of directors prior to the issuance thereof. With respect to the payment of dividends and the distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the preferred shares are entitled to preferences over the common shares and any other shares ranking junior to the preferred shares and may also be given such other preferences over the common shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of each series.

There are no constraints imposed on the ownership of the securities of the Corporation. To the best of the Corporation's knowledge, no ratings have been received from any rating organization regarding the securities of the Corporation.

MARKET FOR SECURITIES

The common shares of the Corporation are listed for trading on the Toronto Stock Exchange under the symbol "PFC". As at the date of this AIF, PetroFalcon's outstanding securities consisted of 158,501,120 common shares, 8,883,660 stock options exercisable for common shares, and 5,000,000 warrants exercisable for common shares of the Corporation, each of which is exercisable at a price of CDN\$1.20 for a period of two years from February 1, 2008.

The following table sets out the price range for, and trading volume of, the common shares of the corporation on the Toronto Stock Exchange as reported by the Toronto Stock Exchange for the periods indicated:

		TSX		
		Price Range		Volume
		High	Low	
		(in Canadian Dollars)		
2009				
	March ⁽¹⁾	0.300	0.160	12,531,365
	February	0.540	0.270	280,695
	January	0.440	0.220	428,257
2008				
	December	0.250	0.180	599,034
	November	0.350	0.195	658,078
	October	0.710	0.150	587,238
	September	1.170	0.700	317,417
	August	1.500	1.100	861,007
	July	1.800	1.300	1,314,986
	June	2.030	1.610	3,895,742
	May	1.900	1.220	3,694,248
	April	1.700	0.990	3,951,417
	March	1.080	0.820	393,485
	February	1.490	1.000	2,091,295
	January	0.980	0.750	654,202

Note:

(1) Partial month from March 1, 2009, to March 26, 2009.

PRIOR SALES

During the financial year ended December 31, 2008, the following securities of the Corporation that are not listed or quoted on a marketplace were issued as follows:

Date of Issue	Number and Type of Securities Issued
February 1, 2008	5,000,000 Warrants ⁽¹⁾
April 28, 2008	250,000 Options ⁽²⁾
August 13, 2008	100,000 Options ⁽³⁾
December 8, 2008	100,000 Options ⁽⁴⁾

Note:

- (1) On February 1, 2008, the Corporation issued 5,000,000 common share purchase warrants to Lundin BV in connection with the Lundin Transaction, each of which is exercisable at a price of CDN\$1.20 for a period of two years from February 1, 2008.
- (2) On April 28, 2008, the Corporation granted to certain directors and officers of the Corporation options (“Options”) to purchase an aggregate of 250,000 common shares of the Corporation. The Options are exercisable at CDN\$1.59 per share and expire on April 28, 2018.
- (3) On August 13, 2008, the Corporation granted to an officer of the Corporation Options to purchase an aggregate of 100,000 common shares of the Corporation. The Options are exercisable at CDN\$1.37 per share and expire on August 13, 2013.
- (4) On December 8, 2008, the Corporation granted to an officer of the Corporation Options to purchase an aggregate of 100,000 common shares of the Corporation. The Options are exercisable at CDN\$0.25 per share and expire on December 8, 2013.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

As at the date of this AIF, no securities of the Corporation are subject to escrow or contractual restrictions on transfer.

DIRECTORS AND OFFICERS

The following table sets forth, for each director and executive officer of PetroFalcon, his or her name, municipality, province or state and country of residence, all positions and offices held by him or her, the month and year in which he or she was first elected a director and his or her principal occupations during the preceding five (5) years.

Name and Municipality of Residence ⁽¹⁾	Offices Held	Director Since	Principal Occupation During the Last Five Years
Juan Francisco Clerico Caracas, Venezuela	Chairman and Director	June 2003	Currently Chairman of the Corporation and Managing Director of Venezolana de inversiones y Construcciones Clerico Compania Anonima. Previously Mr. Clerico was Chief Executive Officer of the Corporation from June 2003 to May 2008.
William Gumma Santa Barbara, California, USA	President, Chief Executive Officer and Director	June 2003	Currently President and Chief Executive Officer of PetroFalcon and Managing Director of Pacific Oil and Gas, LLC.
Clarence Cottman III ⁽³⁾ Ventura, California, USA	Vice Chairman and Director	June 2003	Currently President of Legacy Energy, Inc. and Vice Chairman of the Corporation since January 2007. Previously Mr. Cottman was Chief Financial Officer of PetroFalcon from June 2003 to December 2006.
Dr. Alirio Parra ⁽²⁾⁽³⁾⁽⁴⁾ London, England	Director	June 2003	Currently a Petroleum Consultant with CWC Group, a consulting firm in London, England. Previously, Dr. Parra was Minister of Venezuela's Ministry of Energy and Mines, President of the OPEC Conference and an executive officer of PDVSA.
W. A. (Alf) Peneycad ⁽²⁾⁽⁴⁾⁽⁵⁾ Calgary, Alberta, Canada	Director	June 2007	Currently a lawyer acting as an independent consultant, and has been Of Counsel to the law firm, Macleod Dixon LLP since November 2006. Mr. Peneycad also serves as director on several public companies. Prior to 2006, Mr. Peneycad was Vice-President, General Counsel and Chief Compliance Officer with Petro-Canada.
C. Ashley Heppenstall ⁽²⁾⁽³⁾⁽⁵⁾ Cologny, Switzerland	Director	February 2008	Currently, President and Chief Executive Officer of Lundin Petroleum since 2001.
John Hunter Craig ⁽⁴⁾⁽⁵⁾ Toronto, Ontario, Canada	Director	February 2008	Currently, Barrister and Solicitor, and a Partner at the law firm of Cassels Brock & Blackwell LLP.
Garrett Soden Caracas, Venezuela	Chief Financial Officer	N/A	Chief Financial Officer of the Corporation since December 2006. Former Corporate Development Manager of the Corporation from March 2006 to December 2006 and prior to that an Equity Research Analyst for Lehman Brothers 2005-2006. Former Senior Policy Advisor at the US Department of Energy in 2002 and again in 2004-2005.

Name and Municipality of Residence ⁽¹⁾	Offices Held	Director Since	Principal Occupation During the Last Five Years
David Knight Toronto, Ontario, Canada	Corporate Secretary	N/A	Currently, Barrister and Solicitor, and a Partner at the law firm of Macleod Dixon LLP.

Notes:

- (1) The term of office of each director expires at the next annual meeting of shareholders.
- (2) Member of the Audit Committee.
- (3) Member of the Reserves Committee.
- (4) Member of the Corporate Governance and Nominating Committee.
- (5) Member of the Compensation Committee.

As at the date hereof, the directors and the executive officers of PetroFalcon, as a group, beneficially owned, or controlled or directed, directly or indirectly, 19,594,703 common shares of the Corporation or approximately 12.4% of the issued and outstanding common shares. Further, Mr. Heppenstall is Chief Executive Officer and President of Lundin Petroleum and is a managing director of Lundin BV, although he is not a significant shareholder thereof, which holds 71,020,500 common shares of the Corporation and warrants to acquire an additional 5,000,000 common shares of the Corporation. Additionally the directors and executive officers of PetroFalcon hold options to acquire an additional 6,420,000 common shares of the Corporation.

The information as to common shares beneficially owned, or controlled or directed, directly or indirectly, is based upon information furnished to the Corporation by the directors and executive officers individually.

Corporate Cease Trade Orders

No director or executive officer of the Corporation is, as at the date of this AIF, or was, within 10 years prior to the date of this AIF, a director, chief executive officer or chief financial officer of any Corporation (including PetroFalcon) that:

- (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant corporation access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of the relevant corporation; or
- (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant corporation access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Penalties or Sanctions

No director or executive officer of the Corporation, nor any shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to:

- (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Bankruptcies

No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:

- (i) is, at the date of this AIF, or has been within 10 years prior to the date of this AIF, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold its assets; or
- (ii) has, within 10 years prior to the date of the AIF become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

CONFLICTS OF INTEREST

There are potential conflicts of interest to which the directors and officers of PetroFalcon will be subject in connection with the operations of PetroFalcon. In particular, certain of the directors and officers of PetroFalcon are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of PetroFalcon or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of PetroFalcon. See “*Directors and Officers*”. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, management of the Corporation is not aware of any material interest, direct or indirect, of any director or executive officer of the Corporation, any shareholder of the Corporation that beneficially owns, or controls or directs, directly or indirectly more than 10% of the voting securities of the Corporation or any associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

On August 25, 2006, Vinccler Venezuela received a short term loan in the amount of \$350,000 from a corporation controlled by the Corporation’s Chairman. The purpose of the loan was to permit the Corporation to purchase the data package for the Delta Caribe offshore gas license bid round in Venezuela. The loan was repaid, with interest, on March 27, 2008.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of the Corporation, there are no legal proceedings that involve a claim for damages, the amount of which, exclusive of interest and costs, exceeds 10% of PetroFalcon’s current assets, to which the Corporation is or was a party to or of which any of its properties is or was the subject of, during the financial year ended December 31, 2008 nor are there any such proceedings known to the Corporation to be contemplated.

To the knowledge of the Corporation, there were no: (i) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the Corporation’s last financial year; (ii) penalties or sanctions imposed by a court or regulatory body against the Corporation that would

likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority during the last financial year.

AUDIT COMMITTEE

Audit Committee Charter

The Corporation's Audit Committee Mandate is attached hereto as Appendix D.

Composition of the Audit Committee

Ashley Heppenstall (Chairman), Dr. Alirio Parra and W.A. (Alf) Peneycad serve as the Audit Committee of the board of PetroFalcon.

Relevant Education and Experience

The following is a summary of the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member including such education and experience that provides the member with an understanding of the accounting principles used by the Corporation to prepare its financial statements; the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; experience preparing, auditing, analyzing or evaluating financial statements; and an understanding of internal controls and procedures for financial reporting.

Each of the members of the Audit Committee is independent of management, financially literate, and possessed of an understanding of the accounting principles, internal controls and procedures for financial reporting used by PetroFalcon.

Name of Audit Committee Member	Relevant Education and Experience
C. Ashley Heppenstall	Currently, President and Chief Executive Officer of Lundin Petroleum since 2001. Mr Heppenstall is a graduate of the University of Durham where he obtained a degree in Mathematics. In his various roles at Lundin Petroleum, including as CFO, Mr. Heppenstall has extensive experience overseeing the preparation of financial statements.
Dr. Alirio Parra	Dr. Parra, in his roles as former Minister of Venezuela's Ministry of Energy and Mines, former President of the OPEC Conference, and former executive officer of PDVSA, also has experience actively supervising persons engaged in the preparation of financial statements.
W. A. (Alf) Peneycad	Mr. Peneycad is a graduate of Queen's University Law School and is currently Of Counsel to Macleod Dixon LLP. He also serves as a director of several public companies, including Petro Andina Resources Inc., a Calgary-based oil and gas company with operations in Argentina. Mr. Peneycad recently retired from Petro-Canada where he was Vice-President, General Counsel and Chief Compliance Officer. Mr. Peneycad spent 28 years at Petro-Canada and, while there, played a lead role in the acquisition of several major companies in Canada, the US and internationally.

Pre-approval Policies and Procedures

The Audit Committee shall review and pre-approve any material engagement for non-audit services to be provided by the external auditors or its affiliates, together with estimated fees and consider the effect on the independence of the external auditor.

External Auditor Service Fees (By Category)

Type of service provided	Year-ended December 31, 2008	Year-ended December 31, 2007
Audit fees (including quarterly reviews)	169,500	152,270
Audit-related fees	68,570	-
Tax fees	49,375	108,789
All other fees (including non-audit services relating to transfer pricing, technical service agreement preparation, inter-Corporation loan agreement and tax advice)	189,031	11,044
Total	476,476	272,103

REGISTRAR AND TRANSFER AGENT

PetroFalcon's registrar and transfer agent is Computershare Trust Corporation of Canada at its primary office at 510 Burrard Street, 2nd Floor, Vancouver, British Columbia, V6C 3B9.

INTERESTS OF EXPERTS

There is no person or Corporation who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under NI 51-102 by PetroFalcon during, or related to, its most recently completed financial year and whose profession or business gives authority to the report, valuation, statement or opinion made by the person or Corporation, other than PricewaterhouseCoopers LLP and Huddleston.

To the best knowledge of the Corporation, the designated professionals of PricewaterhouseCoopers LLP or Huddleston own less than 1% of the Corporation's outstanding securities.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of PetroFalcon.

ADDITIONAL INFORMATION

Additional information concerning PetroFalcon is available through the internet on SEDAR under the Corporation's profile, which may be accessed at www.sedar.com.

Additional information, including information (to the extent applicable) regarding directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans and interests of insiders is contained in PetroFalcon's Management Information Circular dated as of May 12, 2008 in respect of its June 17, 2008, annual and special meeting. Additional financial information is contained in the Corporation's comparative financial statements and management's discussion and analysis for the year ended December 31, 2008, and all such documents incorporated herein by reference or mentioned herein are available without charge on SEDAR under the Corporation's profile at www.sedar.com and by contacting the Corporation's offices in Caracas at Centro Altamira, Piso 12, Av. San Juan Bosco, Urb. Altamira, Caracas 1060, Venezuela, telephone: +58 212 263-9164, facsimile: +58 212 266-8830.

APPENDIX A DEFINITIONS USED FOR RESERVE CATEGORIES

Reserves estimates have been prepared by Huddleston & Co., Inc. (Huddleston) in accordance with standards contained in the Canadian Oil and Gas Evaluation (COGE) Handbook. The following reserves definitions are set out by the Canadian Securities Administrators (the “CSA”) in CSA Staff Notice 51-324.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical, and engineering data;
- the use of established technology;
- specified economic conditions¹, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

Proved Reserves

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable Reserves

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Other criteria that must also be met for the categorization of reserves are provided in Section 5.5.4 of the COGE Handbook.

Development and Production Status

Each of the reserves categories (proved, probable, and possible) may be divided into developed and undeveloped categories.

Developed Reserves

Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

¹ For the purposes of NI 51-101, the key economic assumptions will be the prices and costs used in the estimate, namely:
(a) constant prices and costs as at the last day of a reporting issuer’s financial year; or
(b) forecast prices and costs.

Developed Producing Reserves

Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Developed Non-Producing Reserves

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

Undeveloped Reserves

Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to "individual reserves entities" (which refers to the lowest level at which reserves calculations are performed) and to "reported reserves" (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented). Reported Reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves;
- at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in Section 5 of the *COGE Handbook*.

APPENDIX B
FORM 51-101F2
REPORT ON RESERVES DATA BY INDEPENDENT
QUALIFIED RESERVES EVALUATOR OR AUDITOR

To the Board of Directors of PetroFalcon Corporation (the “Corporation”)

1. We have evaluated the reserves data as of December 31, 2008, relating to each of PetroCumarebo, S.A. (“PetroCumarebo”) and Baripetrol, S.A. (“Baripetrol”), in which the Corporation holds a 40% and 5% interest, respectively. The reserves data relating to each of PetroCumarebo and Baripetrol are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2008, estimated using forecast prices and costs, for each of PetroCumarebo and Baripetrol.
2. The reserves data relating to each of PetroCumarebo and Baripetrol are the responsibility of the Corporation’s management and is based upon unaudited information provided by each of PetroCumarebo and Baripetrol to the Corporation’s management. Our responsibility is to express an opinion on the reserves data relating to each of PetroCumarebo and Baripetrol based on our evaluation.

We carried out our evaluation in accordance with the standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy, and Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data relating to each of PetroCumarebo and Baripetrol are free of material misstatement. An evaluation also includes assessing whether the reserves data relating to each of PetroCumarebo and Baripetrol are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to Proved plus Probable reserves, estimated using constant pricing and costs and calculated using a discount rate of 10%, included in the reserves data relating to each of PetroCumarebo and Baripetrol evaluated by us for the year ended December 31, 2008, and reported on to the Corporation’s management.

			Net Present Value of future Net Revenue, M \$US (before income taxes, 10% discount rate) (1)			
Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves	Audited	Evaluated	Reviewed	Total
Huddleston & Co., Inc.	PetroCumarebo East and West Falcon Blocks as of December 31, 2008	Venezuela	-	408,524	-	408,524
Huddleston & Co., Inc.	Baripetrol Colon Block as of December 31, 2008	Venezuela	-	313,174	-	313,174

Notes:

- (1) Probable reserves are not risk adjusted and represent 46% and 22% of future net revenue discounted at 10% for PetroCumarebo and Baripetrol, respectively.

5. In our opinion, the reserves data relating to each of PetroCumarebo and Baripetrol evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data relating to each of PetroCumarebo and Baripetrol that we reviewed but did not audit or evaluate.

6. We have no responsibility to update our report referred to in paragraph 4 for events and circumstances occurring after the preparation date.
7. Because the reserves data relating to each of PetroCumarebo and Baripetrol are based on judgments regarding future events, actual results will vary and the variation may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

Executed as to our report referred to above:

Huddleston & Co., Inc.
Houston, Texas, USA
March 27, 2009

(signed) "Peter D. Huddleston"

by: Peter D. Huddleston, P.E.
President

APPENDIX C
FORM 51-101F3
REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA
AND OTHER INFORMATION

As management of PetroFalcon Corporation (the “**Corporation**”) has elected to include certain reserves data and other information relating to each of PetroCumarebo, S.A. (“**PetroCumarebo**”) and Baripetrol, S.A. (“**Baripetrol**”), in which the Corporation holds a 40% and 5% interest, respectively, management of the Corporation are responsible for the preparation and disclosure of such information, in accordance with securities regulatory requirements. This information includes reserves data relating to each of PetroCumarebo and Baripetrol, which are estimates of proved reserves and probable reserves and related future net revenues as at December 31, 2008, estimated using forecast prices and costs, for each of PetroCumarebo and Baripetrol.

An independent qualified reserves evaluator has evaluated the reserves data relating to each of PetroCumarebo and Baripetrol. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Reserves Committee of the board of directors of the Corporation has:

- (a) reviewed the Corporation’s procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data relating to each of PetroCumarebo and Baripetrol with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors has reviewed the Corporation’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves Committee, approved:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information relating to each of PetroCumarebo and Baripetrol;
- (b) the filing of Form 51-101F2, which is the report of the independent qualified reserves evaluator on the reserves data relating to each of PetroCumarebo and Baripetrol; and
- (c) the content and filing of this report.

Because the reserves data relating to each of PetroCumarebo and Baripetrol are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

(signed) “William Gumma”
William Gumma, President, Chief Executive
Officer and Director

(signed) “Garrett Soden”
Garrett Soden, Chief Financial Officer

(signed) “C. Ashley Heppenstall”
C. Ashley Heppenstall, Director

(signed) “Clarence Cottman”
Clarence Cottman, Vice Chairman and Director

March 27, 2009

APPENDIX D

AUDIT COMMITTEE MANDATE

Purpose

1. The purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial information which will be provided to shareholders of the Corporation and others, the systems of corporate financial controls which management and the Board have established and the audit process. More specifically the purpose of the Audit Committee is to satisfy itself that:
 - (a) The Corporation's annual financial statements are fairly presented in accordance with generally accepted accounting principles and to recommend to the Board whether the annual financial statements should be approved.
 - (b) The information contained in the Corporation's quarterly financial statements, annual report to shareholders and other financial publications, such as management's discussion and analysis, is complete and accurate in all material respects and to approve these materials.
 - (c) The Corporation has appropriate systems of internal control over the safeguarding of assets and financial reporting to ensure compliance with legal and regulatory requirements.
 - (d) The internal and external audit functions have been effectively carried out and that any matter which the internal or the independent auditors wish to bring to the attention of the Board has been addressed. The Audit Committee will also recommend to the Board the re-appointment or appointment of auditors and their remuneration.

Composition and Process

2. Following each annual meeting of shareholders of the Corporation, the Board shall appoint not less than three directors to serve on the Audit Committee, each of whom shall:
 - (a) be independent as that term is defined in then current laws applicable to the Corporation; and
 - (b) be financially literate as such term is defined in then current laws applicable to the Corporation.
3. The Chairman of the Audit Committee shall be appointed by the Board and shall be independent as that term is defined in then current laws applicable to the Corporation.
4. Any member of the Audit Committee may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director of the Corporation. Each member of the Audit Committee shall hold office until the close of the next annual meeting of shareholders of the Corporation or until the member resigns or is replaced, whichever first occurs.
5. The Audit Committee will meet at least four times per year. The meetings will be scheduled to permit timely review of the interim and annual financial statements. Additional meetings may be held as deemed necessary by the Chairman of the Audit Committee or as requested by any member of the Audit Committee or by the internal or external auditors.
6. If all members consent, and proper notice has been given or waived, a member or members of the Audit Committee may participate in a meeting of the Audit Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other, and a member participating in such a meeting by any such means is deemed to be present at that meeting.

7. The Chairman of the Audit Committee appointed by the Board will, in consultation with management, the members of the Audit Committee and the internal and external auditors, determine the schedule, time and place of meetings, establish the agenda for the meetings and ensure that properly prepared agenda materials are circulated to the members and other attendees with sufficient time for study prior to the meeting.
8. A quorum for the transaction of business at all meetings of the Audit Committee shall be a majority of the members of the Audit Committee. Questions arising at any meeting shall be determined by a majority of votes of the members of the Audit Committee present.
9. The Audit Committee may invite such directors, officers and employees of the Corporation as it may see fit from time to time to attend meetings of the Audit Committee and assist in the discussion and consideration of the business of the Audit Committee, but without voting rights.
10. The Audit Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.
11. Supporting schedules and information reviewed by the Audit Committee will be available for examination by any director upon request to the Secretary of the Audit Committee.
12. The Audit Committee shall choose as its secretary such person as it deems appropriate.
13. The internal and external auditors shall be given notice of, and have the right to appear before and to be heard at, every regularly scheduled meeting of the Audit Committee, and shall appear before the Audit Committee when requested to do so by the Audit Committee.

Duties and Responsibilities

14. Subject to the powers and duties of the Board, the Board hereby delegates to the Audit Committee the following powers and duties to be performed by the Audit Committee on behalf of and for the Board:

- (a) Financial Reporting Control Systems

The Audit Committee shall:

- (i) review reports from senior officers of the Corporation outlining any significant changes in financial risks facing the Corporation;
- (ii) review the management letter of the external auditors and the Corporation's responses to suggestions made;
- (iii) annually review the Audit Committee Mandate;
- (iv) review any new appointments to senior positions of the Corporation with financial reporting responsibilities; and
- (v) discuss with the external auditors the overall control environment and the adequacy of accounting system controls.

(b) Interim Financial Statements

The Audit Committee shall:

- (i) review interim financial statements with officers of the Corporation and approve prior to their release; this will include a detailed review of quarterly and year-to-date results;
- (ii) review narrative comment accompanying interim financial statements; and
- (iii) review any interim earnings press release before it is publicly disclosed.

(c) Annual Financial Statements and Other Financial Information

The Audit Committee shall:

- (i) review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements;
- (ii) obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;
- (iii) obtain draft annual financial statements in advance of the Audit Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers of the Corporation;
- (iv) review a summary provided by the Corporation's legal counsel of the status of any material pending or threatened litigation, claims and assessments;
- (v) discuss the annual financial statements and the auditors' report thereon in detail with officers of the Corporation and the auditors;
- (vi) review the annual report and other annual financial reporting documents including management's discussion and analysis;
- (vii) provide to the Board a recommendation as to whether the annual financial statements should be approved;
- (viii) review any annual earnings press release before it is publicly disclosed; and
- (ix) review insurance coverage including directors' and officers' liability coverage;

(d) Public Disclosure of Financial Information

The Audit Committee shall:

- (i) ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in sections 14(b) and 14(c) above; and
- (ii) periodically assess the adequacy of such procedures.

(e) External Audit Terms of Reference, Reports, Planning and Appointment

To preserve the independence of the external auditor responsible for issuing an auditor's report or performing other audit review or attest services for the Corporation, the Audit Committee shall:

- (i) review the audit plan with the external auditors;
 - (ii) discuss with the external auditors, without management present, matters affecting the conduct of their audit and other corporate matters;
 - (iii) recommend to the Board each year the retention or replacement of the external auditors; if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition; and evaluate the external auditor's qualifications, performance and independence;
 - (iv) review the experience and qualifications of the senior members of the external auditors, ensure that the lead audit partner is replaced periodically in accordance with applicable law or audit practices, and that the audit firm continues to be independent;
 - (v) review and pre-approve any engagements for non-audit services to be provided by the external auditor and its affiliates in light of the estimated fees and impact on the external auditor's independence, subject to any *de minimus* exception allowed by applicable law, provided that the Audit Committee may delegate to one or more designated members of the Audit Committee the authority to pre-approve non-audit services, however, any non-audit services that have been pre-approved by any such delegate of the Audit Committee must be presented to the Audit Committee at its first scheduled meeting following such pre-approval;
 - (vi) review with management and with the external auditor:
 - (1) any proposed changes in major accounting policies;
 - (2) the presentation and impact of significant risks and uncertainties; and
 - (3) key estimates and judgements of management that may be material to financial reporting;
 - (vii) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation in compliance with the requirements set out in section 2.4 of National Instrument 52-110;
 - (viii) ensure that the external auditor reports directly to the Audit Committee;
 - (ix) be directly responsible for overseeing the work of the external auditor engaged for the purposes of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting; and
 - (x) annually review and recommend for approval to the Board the terms of engagement and the remuneration of the external auditor.
- (f) Internal Audit Function

The Audit Committee shall consider, together with the Chief Financial Officer of the Corporation, the Corporation's internal audit function.

(g) Procedure for Complaints regarding Accounting, Internal Controls or Auditing Matters

The Audit Committee shall:

- (i) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls or auditing matters; and
- (ii) establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

Reporting and Authority

- 15. The Audit Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.
- 16. The Audit Committee is empowered to investigate any activity of the Corporation and all employees are to co-operate as requested by the Audit Committee. The Audit Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.
- 17. The Audit Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external auditors, senior management, internal audit, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Audit Committee, including directors, officers and employees of the Corporation.

Governance

- 18. The Audit Committee is responsible to review on a regular basis, and in its discretion make recommendations to the Board regarding confirmation of or changes to be made to its Mandate and the position description of its Chairman.

Advisors

- 19. The Audit Committee has the power, at the expense of the Corporation, to retain, instruct, compensate and terminate independent advisors to assist the Audit Committee in the discharge of its duties.

Audit Committee Timetable

- 20. The timetable on the following page outlines the Audit Committee's schedule of activities during the year.

	<i>Meeting Timing</i>	March	May	August	November
Agenda Item					
A. Financial Reporting Control Systems					
(1) Review reports from senior officers outlining changes in financial risks.	X	X	X	X	X
(2) Review management letter of external auditors and Corporation's responses to suggestions made.	X				
(3) Review the Audit Committee Mandate	X				
(4) Review any new appointments to senior positions with financial reporting responsibilities	X	X	X	X	X
(5) Obtain assurance from both internal and external auditors regarding the overall control environment and the adequacy of account system controls.	X	X	X	X	X
B. Interim Financial Statements					
(1) Review Interim financial statements with officers of the Corporation and approve prior to their release.			X	X	X
(2) Review narrative comment accompanying interim financial statements.			X	X	X
(3) Review interim earnings press release, if any			X	X	X
C. Annual Financial Statements and Other Financial Information					
(1) Review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements	X	X	X	X	X
(2) Obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration.	X	X	X	X	X

<i>Meeting Timing</i>		March	May	August	November
(3)	Obtain draft annual financial statements in advance of the Audit Committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in light of the analyses provided by officers of the Corporation.	X			
(4)	Review summary of the status of any material pending or threatened litigation, claims and assessments.	X	X	X	X
(5)	Discuss the annual financial statements and the auditors' report thereon in detail with officers of the Corporation and the auditors.	X			
(6)	Review the annual report and other annual financial reporting documents.	X			
(7)	Provide to the Board a recommendation as to whether the annual financial statements should be approved.	X			
(8)	Review annual earnings press release, if any	X			
(9)	Review insurance coverage.				X
D.	External Audit Terms of Reference, Reports, Planning and Appointment				
(1)	Review the audit plan with the external auditors.	X			
(2)	Discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters.	X			
(3)	Recommend to the Board the retention or replacement of the external auditors. If there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition.	X			
(4)	Review and recommend for approval to the Board the terms of engagement and the remuneration of the external auditor.		X		