



*Building Value in Venezuela*

## MANAGEMENT DISCUSSION & ANALYSIS

### FIRST QUARTER 2008

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The following management discussion and analysis (“MD&A”) is prepared as of May 9, 2008. This MD&A, as provided by the management of PetroFalcon Corporation (“PetroFalcon” or the “Company”), should be read in conjunction with the Company’s unaudited interim consolidated financial statements for the three months ended March 31, 2008, and 2007, together with the audited consolidated financial statements for the years ended December 31, 2007, and 2006. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Estimates and forward-looking information are based on assumptions of future events and actual results may vary from these estimates.

All dollar amounts are expressed in US dollars (“USD”).

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 Bolívars under the temporary name of “Bolívars Fuertes”, which after a period of time will revert to the name Bolívars. For the three months ended March 31, 2008, the balances were translated at implied market rates for the three months ending March 31, 2008, and 2007.

For the purposes of calculating mixed company production, natural gas has been converted to a barrel of oil equivalent (“boe”) using a conversion rate of six thousand cubic feet (“mcf”) equal to one barrel (6:1).

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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Forward-looking information and statements are included through this MD&A and include, but are not limited to statements with respect to the mixed companies (“Empresas Mixtas”) PetroCumarebo and Baripetrol; the gas licenses Cardon III and Cardon IV; royalty payments; oil and natural gas production; general and administrative expenses; future income tax; future drilling; planned growth and development; contractual obligations; new projects; forecasted production; future plans; objectives and results. The above constitute forward-looking information within the meaning of applicable Canadian securities legislation, which involve risks, uncertainties and assumptions including, without limitation, risks associated with operating exclusively in a foreign jurisdiction; being a minority partner in an Empresa Mixta; being dependent on dividends from an Empresa Mixta; the imposition of higher royalties and income taxes; the impact of general economic conditions in Venezuela and world-wide; industry conditions including the adoption of environmental, tax and other laws and changes in how they are interpreted and enforced; the existence of operating risks in finding, developing and producing oil and natural gas; volatility of oil and natural gas prices; oil and natural gas product supply and demand; processing facility access; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; stock market volatility; commodity prices; interest rates; opportunities available to or pursued by the Company; and other factors, many of which are beyond our control.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The foregoing factors are not exhaustive and are further discussed in PetroFalcon’s most recent annual information form available on SEDAR at [www.sedar.com](http://www.sedar.com). Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived there from. Investors should not place undue reliance on forward-looking information. Statements relating to “reserves” or “resources” are also deemed to be forward-looking information as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. Except as required by law, PetroFalcon Corporation and its subsidiaries expressly disclaim any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. In the event subsequent events prove past statements about current trends to be materially different, we may choose to issue a news release explaining the reasons for the difference and update the guidance on the anticipated impact on revenue, earnings and other key events.

The information contained in this MD&A is expressly qualified by this cautionary statement.

## CURRENT STATUS OF PETROFALCON

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PetroFalcon Corporation is engaged in the exploration, development, production and management of oil and natural gas properties. Through its wholly-owned Venezuelan subsidiaries, Vinccler Oil and Gas, C.A. (“Vinccler Venezuela”), and Lundin Latina de Petróleos, S.A. (“Lundin Venezuela”), PetroFalcon owns 40% of PetroCumarebo, S.A. (“PetroCumarebo”), and 5% of Baripetrol, S.A. (“Baripetrol”).

### **PetroCumarebo Accounting**

Historically, PetroFalcon has considered its investment in and relationship with PetroCumarebo to be one of joint control and accordingly has accounted for its 40% interest in PetroCumarebo using proportional 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 currently meet the criteria for proportional consolidation or equity method accounting. Accordingly, PetroFalcon has accounted for PetroCumarebo using the cost method of accounting for the three months ended March 31, 2008. Under the cost method, PetroFalcon does not recognize its 40%-share of revenues, expenses, assets or liabilities from PetroCumarebo and instead only recognizes income from the investment to the extent that dividends are received by PetroCumarebo. As a result, PetroFalcon has no revenues for the three months ended March 31, 2008, and has restated the comparable period in 2007.

Despite this change for accounting purposes, PetroFalcon remains an oil and gas company carrying on active operations in Venezuela, and Management does not consider PetroFalcon to be a company with only passive investments.

As a consequence of adopting the cost method of accounting, certain continuous disclosure for the three months ended 2008 varies from that provided in 2007, including continuous disclosure relating to oil and gas operations. However, Management of PetroFalcon has determined that, because PetroFalcon remains an oil and gas company carrying on active operations in Venezuela, it is important to provide comparative and relevant oil and gas information in the MD&A, where possible. Therefore, disclosure in the MD&A will provide relevant oil and gas information in respect of PetroFalcon’s 40% working interest in PetroCumarebo to the extent possible. This information will be based upon unaudited information provided by PetroCumarebo to Management and upon a 51-101 compliant technical report obtained by Management of PetroFalcon.

### **Lundin Transaction**

On February 1, 2008, PetroFalcon acquired 100% of the issued and outstanding shares of Lundin Venezuela, which owns 5% of Baripetrol, a mixed company that operates the Colon Block in western Venezuela and has current onshore production of oil and natural gas. The Company acquired Lundin Venezuela from Lundin Petroleum BV (“Lundin BV”), a wholly-owned subsidiary of Lundin Petroleum AB (“Lundin Petroleum”), in consideration for the issuance of

57,254,505 common shares of the Company at a price of CDN\$0.80 per share. At closing, Lundin Venezuela had approximately \$22 million in cash.

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 Company of approximately \$5.1 million. Each unit consists of one common share and approximately 0.75 warrants, such that Lundin BV now holds an aggregate of 5 million warrants. Each whole warrant expires on February 1, 2010, and is exercisable for one common share of PetroFalcon upon payment of CDN\$1.20 per share.

In total, Lundin BV acquired 63,920,500 common shares, representing 42% of the issued and outstanding common shares of PetroFalcon on an undiluted, post-closing basis, plus 5 million warrants of the Company. All of PetroFalcon's outstanding stock options vested immediately at the closing of the transactions with Lundin BV due to the change of control provision in the stock option agreements.

On March 4, 2008, Lundin Venezuela received a \$1.9 million dividend from Baripetrol for operations between January and September 2007. According to the sale and purchase agreement between PetroFalcon and Lundin BV, all 2007 Baripetrol dividends received by Lundin Venezuela are for the benefit of PetroFalcon. The dividend has been credited against the historical cost of the investment instead of being recognized as income in the first quarter of 2008 because the dividend relates to earnings before the closing of the transaction.

### **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").

PetroFalcon intends to acquire Anadarko Venezuela from Anadarko Petroleum for \$200 million in cash with a financial effective date of January 1, 2008. The agreement is subject to the approval of the Venezuelan Ministry of Energy and Petroleum ("MEP").

Anadarko Venezuela indirectly owns 18% of Petroritupano, S.A. ("Petroritupano"), a mixed company with current onshore production of oil and natural gas from the Oritupano-Leona Block in eastern Venezuela. In addition, Anadarko Venezuela holds a \$58 million voucher that can be used as credit with the Venezuelan government for new oil and gas investment opportunities.

Lundin Petroleum has provided a guarantee to Anadarko Petroleum for the full purchase price. In consideration for the guarantee, PetroFalcon has agreed to issue 17.1 million common shares of the Company to Lundin Petroleum or one of its subsidiaries, subject to regulatory approval. On April 11, 2008, PetroFalcon issued 7.1 million of these shares to Lundin Petroleum, which now indirectly owns 45% of the issued and outstanding common shares of the Company on an undiluted basis. The remaining 10 million shares will be issued to Lundin Petroleum, subject to regulatory approval, at closing of the Anadarko Venezuela transaction.

PetroFalcon intends to fund the purchase price of the acquisition through third-party financing, which may be in the form of debt, equity or a combination thereof. If required, Lundin Petroleum has agreed to provide interim financing to PetroFalcon on commercial terms.

## New Business Update – Exploration

### *Chevron – Cardon III Block*

Subject to the approval of MEP, PetroFalcon is acquiring a 30% interest from Chevron Corporation (“Chevron”) in the offshore natural gas license for the Cardon III Block (“Cardon III”) in the Gulf of Venezuela. The Company anticipates that the transaction will be completed in 2008.

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. 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. Under the farm-in agreement, all funds paid by Vinccler Venezuela to Chevron will be returned with interest if MEP approval is denied

The acquisition of 530 square kilometers of 3D seismic data over the Cardon III Block was completed in April 2007. A jack-up rig has been secured with a multi-operator group from adjoining blocks in the Gulf of Venezuela, and the expected spud date is in early 2009. If successful, first commercial production of natural gas is expected in 2011.



### *Repsol YPF – Cardon IV Block*

PetroFalcon is also acquiring a 25% interest from Repsol YPF, S.A. (“Repsol”) in the offshore natural gas license for the Cardon IV Block (“Cardon IV”) in the Gulf of Venezuela. The Cardon IV transaction is subject to the negotiation and execution of a sale and purchase agreement, as well as the approval of MEP. The Company anticipates that the transaction will be completed in 2008, subject to the above conditions.

Under the terms of the farm-in agreement, Vinccler Venezuela has no obligations relating to past sunk costs on the Cardon IV Block and has paid nothing to Repsol to date.

The acquisition of 700 square kilometers of 3D seismic data over the Cardon IV Block was completed in February 2007. A jack-up rig has been secured with a multi-operator group from adjoining blocks in the Gulf of Venezuela. The expected spud date is in early 2009, immediately following the Cardon III well. If successful, first commercial production of natural gas is expected in 2011.

## PETROFALCON 2008 Q1 PRODUCTION

### PetroCumarebo Production Summary:

	<b>PetroCumarebo (Gross)</b>	<b>PetroFalcon (Net)</b>	
	<b>Three months ended Mar 31, 2008</b>	<b>Three months ended Mar 31, 2008</b>	<b>Three months ended Mar 31, 2007</b>
<b>Daily production</b>			
Oil - bbls/d	1,002	401	248
Natural gas - mcf/d	10,830	4,332	107
<b>Total – boe/d</b>	<b>2,807</b>	<b>1,123</b>	<b>266</b>

Note: Production is shown before royalties. PetroFalcon, through Vinccler Venezuela, owns 40% of PetroCumarebo.

As detailed in the table above, PetroCumarebo's average gross production from both the East Falcon and West Falcon blocks for the three months ended March 31, 2008, was 2,807 boe/d. PetroFalcon's 40% share before royalties was 1,123 boe/d. For the comparable period ended March 31, 2007, PetroCumarebo's average production was 664 boe/d, PetroFalcon's 40% share before royalties being 266 boe/d.

The current gross production of PetroCumarebo is approximately 1,100 bbls/d of oil and 15 mmcf/d of natural gas, or 3,600 boe/d.

PetroCumarebo's oil production is delivered to PDVSA at an average price that is approximately 103% of WTI for East Falcon oil and 85% of WTI for West Falcon oil. PetroCumarebo produces light sweet crude oil that sells at a premium to most of the oil produced in Venezuela.

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

### Baripetrol Production Summary:

	<b>Baripetrol (Gross)</b>	<b>PetroFalcon (Net)</b>	
	<b>Three months ended Mar 31, 2008</b>	<b>Three months ended Mar 31, 2008</b>	<b>Three months ended Mar 31, 2007</b>
<b>Daily production</b>			
Oil - bbls/d	9,202	460	NA
Natural gas - mcf/d	5,627	281	NA
<b>Total – boe/d</b>	<b>10,140</b>	<b>507</b>	<b>NA</b>

Note: Production is shown before royalties. PetroFalcon, through Lundin Venezuela, owns 5% of Baripetrol. The comparable period in 2007 is prior to PetroFalcon's acquisition of Lundin Venezuela.

As detailed in the table above, Baripetrol's average gross production from the Colon Block for the three months ended March 31, 2008, was 10,140 boe/d. PetroFalcon's 5% share before royalties was 507 boe/d.

The current gross production of Baripetrol is approximately 10,500 bbls/d of oil and 6 mmcf/d of natural gas, or 11,500 boe/d.

Baripetrol's oil production is delivered to PDVSA at an average price that is approximately 85% of WTI.

## **PETROFALCON FINANCIAL STATEMENTS**

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**Please see "Current Status of PetroFalcon".**

Under the cost method of accounting adopted for the three months ended March 31, 2008, PetroFalcon is no longer recognizing its 40% share of revenues, expenses, assets or liabilities from PetroCumarebo and instead only recognizes income to the extent that dividends are received by PetroCumarebo. As a result, PetroFalcon has no revenues for the three months ended March 31, 2008, and has restated the comparable period in 2007. To date, no dividends have been received by PetroCumarebo.

PetroFalcon's investment in Baripetrol is also recognized under the cost method of accounting. During the three months ended March 31, 2008, PetroFalcon received a \$1.9 million dividend from Baripetrol for the first nine months of 2007. The dividend has been credited against the historical cost of the investment instead of being recognized as income in the first quarter of 2008 because the dividend relates to earnings before the closing of the transaction.

## **GENERAL AND ADMINISTRATIVE ("G&A") EXPENSE**

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**Please see "Current Status of PetroFalcon".**

PetroFalcon's general and administrative expenses were \$1,630,939 during the three months ended March 31, 2008, as compared to \$2,422,846 during the three months ended March 31, 2007.

G&A expenses decreased mainly due to a \$1.1 million provision in general and administrative expenses during the three months ended March 31, 2007, for invoices between July and December 2006 under the technical service agreement between Vinccler Venezuela and PetroFalcon. Under the terms of the conversion contract, the technical service agreement was transferred from Vinccler Venezuela to PetroCumarebo on April 1, 2006. PetroCumarebo paid PetroFalcon for technical service invoices in April, May and September 2006, but management is currently renegotiating the terms of this contract and may not be able to collect from PetroCumarebo on subsequent amounts.

For the three months ended March 31, 2008, G&A expenses included legal expenses of approximately \$200,000 related to the Lundin Venezuela and Anadarko Venezuela acquisitions.

PetroFalcon does not capitalize general and administrative expenses.

## **DEPRECIATION, DEPLETION AND AMORTIZATION (“DD&A”) EXPENSE**

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Please see “Current Status of PetroFalcon”.

PetroFalcon’s depreciation, depletion and amortization expenses were \$25,412 during the three months ended March 31, 2008, as compared to \$39,957 during the three months ended March 31, 2007.

## **STOCK-BASED COMPENSATION**

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During the three months ended March 31, 2008, the Company recorded \$728,757 in stock-based compensation expense as compared to \$737,638 during the three months ended March 31, 2007.

All of the Company’s outstanding stock options immediately vested at the closing of the Lundin transaction on February 1, 2008. PetroFalcon’s stock options agreements have a change of control provision that causes all stock options to vest immediately when more than 20% of the Company is purchased.

## **INTEREST INCOME AND EXPENSE**

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At March 31, 2008, PetroFalcon had \$31.2 million in cash and short-term deposits compared to \$4.8 million at March 31, 2007. During the three months ended March 31, 2008, the Company recorded interest income in the amount of \$177,061 as compared to \$93,595 during the three months ended March 31, 2007.

PetroFalcon incurred interest expense of \$284,748 during the three months ended March 31, 2008, as compared to \$367,255 during the three months ended March 31, 2007. The decrease is primarily due to lower short-term debt during 2008. At March 31, 2008, PetroFalcon had \$2.1 million in short-term debt compared to \$6.5 million at March 31, 2007. The reduction in the short-term debt is offset by an increase in the average interest rate paid during the three months ended March 31, 2008. The average interest rate on Venezuelan local currency credit lines increased from 12% during the three months ended March 31, 2007, to 26% during the three months ended March 31, 2008.

## **INCOME TAXES**

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During the three months ended March 31, 2008 and 2007, PetroFalcon recorded no income tax expense since the Company had no taxable income for these periods.

## PETROFALCON 2008 CAPITAL EXPENDITURES BUDGET

### PetroFalcon Summary 2008 Budget:

(\$MMs)	PetroFalcon Net Share
PetroCumarebo	12.0
Baripetrol	3.0
Cardon III	1.6
Cardon IV	1.3
<b>PetroFalcon Total Budget</b>	<b>17.9</b>

The table above represents PetroFalcon's net share of the 2008 planned expenditures for each of PetroFalcon's oil and gas investments. The budgets for PetroCumarebo and Baripetrol are expected to be self-funded without cash calls to PetroFalcon. The Cardon III and Cardon IV investments are subject to MEP approval.

### PetroCumarebo 2008 Budget:

(\$000s)	PetroCumarebo 2008 Budget	PetroFalcon 40% Share	Incurred as of Mar 31, '08 (Gross)	Incurred as of Mar 31, '08 (Net)
<b>Drilling and Work-overs</b>				
- La Vela	9,400	3,760	-	-
- Cumarebo	8,700	3,480	8,201	3,280
- West Falcon	400	160	-	-
- Total Drilling and Work-overs	18,500	7,400	8,201	3,280
<b>Processing Facilities and Infrastructure</b>				
- La Vela	4,230	1,692	272	109
- Cumarebo	3,770	1,508	1,267	507
- West Falcon	3,500	1,400	168	67
Total Processing Facilities and Infrastructure	11,500	4,600	1,707	683
<b>Total Capital Budget</b>	<b>30,000</b>	<b>12,000</b>	<b>9,908</b>	<b>3,963</b>

PetroCumarebo's board recently ratified the previously approved 2008 capital expenditures budget of \$30 million (40% net to PetroFalcon being \$12 million). The work program involves drilling four development wells and two appraisal wells in Cumarebo, three deeper development wells in La Vela and two exploration wells nearby Cumarebo and La Vela. The exploration wells, San Patricio and La Cruz South, will test two prospects with expected unrisks potential of 110 million barrels of oil and 100 billion cubic feet of natural gas reserves. The San Antonio International (formerly Pride) 421 900 HP rig is on long-term contract to PetroCumarebo through 2008.

De-bottlenecking of the La Vela and Cumarebo processing facilities is scheduled during the second half of the year in order to increase the gas processing plants capacities to 20 mmcf/d in La Vela and 30 mmcf/d in Cumarebo.

### Baripetrol 2008 Budget:

(\$000s)	Baripetrol 2008 Budget	PetroFalcon 5% Share	Incurred as of Mar 31, '08 (Gross)	Incurred as of Mar 31, '08 (Net)
<b>Seismic, Drilling and Work-overs</b>				
- Rosario	1,910	96	-	-
- La Palma	33,500	1,675	2,990	149
- Socuavo	13,290	664	-	-
- Los Manueles	1,890	95	610	31
- Bonito	370	18	-	-
- West Tarra	590	30	-	-
- Total Drilling and Work-overs	51,550	2,578	3,600	180
<b>Processing Facilities and Infrastructure</b>				
- Rosario	1,640	82	-	-
- La Palma	2,350	117	-	-
- Socuavo	1,430	72	-	-
- Los Manueles	1,140	57	-	-
- Bonito	1,000	51	-	-
- West Tarra	990	49	-	-
- Total Processing Facilities and Infrastructure	8,550	428	-	-
<b>Total Capital Budget</b>	<b>60,100</b>	<b>3,006</b>	<b>3,600</b>	<b>180</b>

Baripetrol's 2008 capital expenditures budget of \$60 million (5% net to PetroFalcon being \$3 million) includes four development wells in the La Palma field, a 165-square-kilometer 3-D seismic campaign in the Socuavo field and, together with the contracting of a second work-over rig, twenty work-overs in the La Palma, Rosario, Socuavo, Los Manueles, West Tarra and Bonito fields. A 2,000 HP Petrex drilling rig is scheduled to begin operations in August 2008 and is on long-term contract to Baripetrol through 2011. Due to the delay in securing the drilling rig, it is unlikely that Baripetrol will be able to spend its full capital budget in 2008.

### Cardon III 2008 Budget:

(\$MMs)	Cardon III 2008 Budget	PetroFalcon 30% Share
Area Leasing Annual Payment	0.46	0.14
3D Seismic Processing	0.30	0.09
Mapping, AVO, Subsurface Studies	4.49	1.35
<b>Total Capital Budget</b>	<b>5.25</b>	<b>1.58</b>

Vinccler Venezuela's acquisition of 30% of the offshore natural gas license for the Cardon III Block from Chevron is subject to MEP approval.

### Cardon IV 2008 Budget:

(\$MM)	Cardon IV 2008 Budget	PetroFalcon 25% Share
Surface and License Fees	3.35	0.84
General & Administrative	1.82	0.45
<b>Total Capital Budget</b>	<b>5.17</b>	<b>1.29</b>

Vinccler Venezuela's acquisition of 25% of the offshore natural gas license for the Cardon IV Block from Repsol is subject to the approval of MEP, as well as the negotiation and execution of a sale and purchase agreement.

### LIQUIDITY AND CAPITAL RESOURCES

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As of May 9, 2008, PetroFalcon had 158,271,120 issued and outstanding common shares and 174,217,614 common shares on a fully diluted basis.

As of March 31, 2008, PetroFalcon had 151,171,120 issued and outstanding common shares and 173,967,614 common shares on a fully diluted basis. As of March 31, 2007, PetroFalcon had 86,431,336 issued and outstanding common shares and 96,767,830 common shares on a fully diluted basis (see Lundin Transaction above).

As of March 31, 2008, PetroFalcon had \$31.2 million in cash and working capital of \$29.4 million. As of March 31, 2008, PetroFalcon's total short-term debt was \$2.1 million and total long-term debt was zero. At December 31, 2007, PetroFalcon had \$4.8 million in cash and working capital of \$2.1 million. At December 31, 2007, PetroFalcon had short-term debt of \$2.5 million and no long-term debt.

On April 1, 2008, Vinccler Venezuela repaid its outstanding short-term debt of \$2.1 million. As a result, as of May 9, 2008, PetroFalcon has no debt.

On May 6, 2008, Vinccler Venezuela received \$1.0 million related to inventory sold to PetroCumarebo.

On May 9, 2008, Vinccler Venezuela received \$3.6 million from PDVSA related to Q1 2006 revenue under the former Operating Service Agreement.

At March 31, 2008, PetroFalcon had \$3.1 million in accounts receivable compared to \$2.4 million at December 31, 2007. As of March 31, 2008, the Company had \$3.8 million in accounts payable compared to \$3.6 million at December 31, 2007.

At March 31, 2008, PetroFalcon had no material contractual obligations.

The planned growth and development activities for the next twelve months may require additional funds. PetroFalcon Management anticipates that these funds will be obtained from potential dividends from PetroCumarebo and Baripetrol, lines of credit and additional debt or

equity securities financing. The Company cannot be certain that capital will be available when needed.

## SUMMARY OF QUARTERLY RESULTS

The following table sets forth selected consolidated financial information of PetroFalcon for the last eight quarters:

(\$000s, except per share amounts)	2006			2007				2008
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	NA	5,707	2,315	Nil	Nil	Nil	Nil	Nil
Net income (loss)	(1,700)	(1,313)	(2,502)	(801)	(3,538)	1,689	566	(1,675)
Earnings (loss) per share basic and diluted	(0.02)	(0.02)	(0.03)	(0.01)	(0.04)	0.02	0.01	(0.01)

Note: Q2 2006 revenue is shown as “NA”, because PetroFalcon did not recognize revenue from PetroCumarebo during the three months ended June 30, 2006, since the Empresa Mixta conversion had not yet been completed. This revenue was subsequently recognized in Q3 2006.

Under the cost method, PetroFalcon does not recognize its 40%-share of revenues, expenses, assets or liabilities from PetroCumarebo and instead only recognizes income from the investment to the extent that dividends are received by PetroCumarebo. As a result, PetroFalcon has no revenues for the three months ended March 31, 2008, and has restated the first quarter of 2007 for comparison purposes. For the year ended December 31, 2008, the Company intends to provide restated comparable quarters for the prior periods.

## RELATED PARTY TRANSACTIONS

Pacific Oil and Gas, LLC and Venezolana de Inversiones y Construcciones Clerico, C.A. (“Vinccler Construction”) are controlled by officers of PetroFalcon. For the three months ended March 31, 2008 and 2007, the Company paid Pacific Oil and Gas, LLC, controlled by PetroFalcon’s Vice Chairman, Clarence Cottman, and PetroFalcon’s President, William Gumma, \$135,000 for professional services. These payments for professional services include the salaries of Mr. Gumma and PetroFalcon’s Chief Financial Officer, Garrett Soden, as well as the operating expenses for PetroFalcon’s technical office in Carpinteria, California.

PetroFalcon also receives construction services provided by Vinccler Construction, an independent operating construction company controlled by the Company’s Chairman and Chief Executive Officer, Juan Francisco Clerico. During the three month periods ended March 31, 2008, and 2007, PetroFalcon did not receive services from Vinccler Construction. On August 25, 2006, Vinccler Construction paid on behalf of Vinccler Venezuela the amount of \$350,000 to purchase the data package for the Delta Caribe offshore natural gas bid process in Venezuela. On March 27, 2008, Vinccler Venezuela repaid this amount plus \$42,199 for interest at LIBOR plus 2%.

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

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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During the three months ended March 31, 2008, there were no changes to internal controls over financial reporting that have materially affected, or are reasonably like to materially affect, the Company's internal controls over financial reporting.

## **ADDITIONAL INFORMATION**

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Additional information regarding the Company, including its annual information form, reserves information and annual report, may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) or by visiting the Company's website at [www.petrofalcon.com](http://www.petrofalcon.com).