

MANAGEMENT DISCUSSION & ANALYSIS

THIRD QUARTER 2008

The following management discussion and analysis (“MD&A”) is prepared as of November 12, 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 and nine months ended September 30, 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, see “Cautionary Statement Regarding Forward-Looking Information”.

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 and nine months ended September 30, 2008, and 2007, the balances were translated at implied market rates.

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) 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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward-looking information and statements are included throughout this MD&A and include, but are not limited to, statements with respect to the mixed companies (“Empresas Mixtas”) PetroCumarebo and Baripetrol; the gas license Cardon III; 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. 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 do not intend to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. The information contained in this MD&A is expressly qualified by this cautionary statement.

CURRENT STATUS OF PETROFALCON

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”). PetroFalcon is in the process of merging Vinccler Venezuela and Lundin Venezuela so that, effective December 31, 2008, Lundin Venezuela will cease to exist, and Vinccler Venezuela will be the surviving entity.

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 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 currently meet the criteria for proportionate consolidation or equity method accounting. Accordingly, PetroFalcon has accounted for PetroCumarebo using the cost method of accounting for the three and nine months ended September 30, 2008, and 2007. 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 from PetroCumarebo. As a result, PetroFalcon has no revenues for the three and nine months ended September 30, 2008, and has restated the comparable periods 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 and nine months ended September 30, 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 working interests in PetroCumarebo and Baripetrol to the extent possible. This information will be based upon unaudited information provided by PetroCumarebo and Baripetrol to Management and upon a National Instrument 51-101 compliant independent 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, a holding company incorporated in Venezuela. Lundin Venezuela owns 5% of Baripetrol, a Venezuelan mixed company between Petróleos de Venezuela, S.A. (“PDVSA”), Tecpetrol de Venezuela, S.A. and Perenco Oil and Gas International Limited. Baripetrol

operates the Colon Block, which includes approximately 297,000 acres in western Venezuela with 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 deemed 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.

As part of the transactions with Lundin Petroleum, PetroFalcon appointed two members to the Board of Directors of the Company: Ashley Heppenstall, President and CEO of Lundin Petroleum, and John Craig, a partner at Cassels Brock & Blackwell LLP, a law firm in Toronto.

During the nine months ended September 30, 2008, Lundin Venezuela received \$2.9 million in dividends from Baripetrol for operations between January and December 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 dividends have been credited against the historical cost of the investment instead of being recognized as income during the nine months ended September 30, 2008, because the dividends were related 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”) for \$200 million in cash. The agreement was subject to the approval of the Venezuelan Ministry of Energy and Petroleum (“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.

Anadarko Venezuela indirectly owns 18% of Petroritupano, S.A. (“Petroritupano”), a mixed company with PDVSA and Petrobras Energia, S.A. (“Petrobras”).

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 intends to acquire Anadarko Petroleum's interest in Petroritupano. Anadarko Petroleum subsequently terminated the sale and purchase agreement and returned PetroFalcon's \$5 million deposit with interest.

At PetroFalcon's request, Lundin Petroleum provided a guarantee to Anadarko Petroleum for the full purchase price. In consideration for the guarantee, PetroFalcon 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. The initial shares have been expensed by the Company as stock-based financing fees over the effective period of the sale and purchase agreement. The remaining 10 million shares that would have been due at closing will not be issued, in accordance with the agreement with Lundin Petroleum.

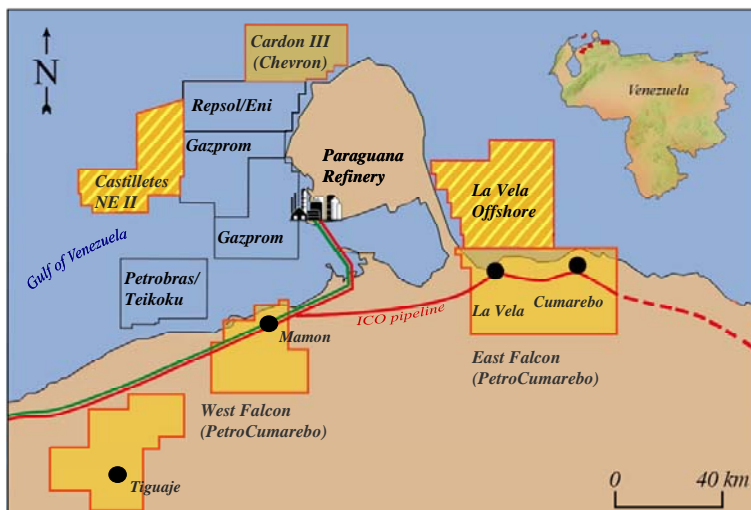
New Business Update – Exploration

Chevron – Cardon III Block

On February 26, 2007, Vinccler Venezuela and Chevron Corporation (“Chevron”) announced signing a Heads of Terms agreement whereby Vinccler Venezuela will acquire a 30% working interest from Chevron in the offshore natural gas license for the Cardon III Block (“Cardon III”) in the Gulf of Venezuela. Under the terms of the agreement effective January 1, 2007, Chevron remains operator and majority partner with a 70% interest. PDVSA retains the right to acquire up to 35% of the project after declaration of commerciality, and the transaction is subject to the approval of MEP. The Company anticipates that the transaction will be completed in the fourth quarter of 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 an additional \$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 drilling is expected to start in early 2009.



Repsol YPF – Cardon IV Block

On March 12, 2008, PetroFalcon announced the signing of a letter of intent with Repsol YPF, S.A. (“Repsol”), whereby Vinccler Venezuela intended to acquire 25% of the Cardon IV Block (“Cardon IV”) in the Gulf of Venezuela. 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. PetroFalcon has paid nothing to date to Repsol and has no ongoing capital commitment for Cardon IV.

PETROFALCON 2008 Q3 PRODUCTION

PetroFalcon’s most recent monthly average working interest production before royalties, including both PetroCumarebo and Baripetrol, is 868 bbls/d of oil and 5.7 mmcf/d of natural gas, or 1,815 boe/d.

PetroCumarebo Production Summary:

	PetroCumarebo (Gross)	PetroFalcon (Net)	
	Three months ended Sept 30, 2008	Three months ended Sept 30, 2008	Three months ended Sept 30, 2007
Daily production			
Oil - bbls/d	838	335	419
Natural gas - mcf/d	16,059	6,424	1,567
Total – boe/d	3,515	1,406	680

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 and West Falcon blocks for the three months ended September 30, 2008, was 3,515 boe/d. PetroFalcon’s 40% share before royalties was 1,406 boe/d. For the comparable period ended September 30, 2007, PetroCumarebo’s average gross production was 1,700 boe/d, with PetroFalcon’s 40% share before royalties being 680 boe/d.

The most recent monthly average gross production of PetroCumarebo is 1,028 bbls/d of oil and 13.4 mmcf/d of natural gas, or 3,260 boe/d, which is an increase of almost 40% since the beginning of the year. The oil production has increased since the previous quarter due to the re-perforation of the CU-170 well in the Cumarebo Field with “stim gun” technology and the recent completion of the LV-22 well in the La Vela Field.

PetroCumarebo produces light sweet crude oil that sells at a premium to most of the oil produced in Venezuela. Historically, PetroCumarebo’s oil production was delivered to PDVSA at an

average price that was approximately 103% of WTI for East Falcon oil and 85% of WTI for West Falcon oil.

Effective April 15, 2008, the Law of Special Contribution to Extraordinary Prices at the Hydrocarbons International Market (“Windfall Profits Tax”) implemented by the Venezuelan government reduces the average price received by PetroCumarebo for oil deliveries. The Windfall Profits Tax establishes a special tax payable to the Venezuelan government when the average price of Brent crude exceeds \$70 per barrel. The tax is calculated as 50% of the increment between \$70 and \$100 Brent plus 60% of the increment above \$100 Brent. On July 10, 2008, the Venezuelan government amended the benchmark in the tax calculation retroactively to April 15, 2008, from Brent to the Venezuelan basket of prices as published by MEP. The Windfall Profits Tax applies only to oil revenue and is a reduction in the price per barrel received by the mixed company from PDVSA.

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 PetroFalcon will be in US dollars and are at the discretion of the shareholders of PetroCumarebo, depending on net and available profits.

Baripetrol Production Summary:

	Baripetrol (Gross)	PetroFalcon (Net)	
	Three months ended Sept 30, 2008	Three months ended Sept 30, 2008	Three months ended Sept 30, 2007
Daily production			
Oil - bbls/d	8,762	438	476
Natural gas - mcf/d	6,193	310	244
Total – boe/d	9,794	490	516

Note: Production is shown before royalties. PetroFalcon, through Lundin Venezuela, owns 5% of Baripetrol. PetroFalcon’s acquisition of Lundin Venezuela closed on February 1, 2008, but is effective as of July 1, 2007.

As detailed in the table above, Baripetrol’s average gross production from the Colon Block for the three months ended September 30, 2008, was 9,794 boe/d. PetroFalcon’s 5% share before royalties was 490 boe/d. For the comparable period ended September 30, 2007, Baripetrol’s average gross production was 10,333 boe/d, with PetroFalcon’s 5% share before royalties being 516 boe/d.

The most recent monthly average gross production of Baripetrol is 9,130 bbls/d of oil and 6.5 mmcf/d of natural gas, or 10,205 boe/d. Production has been maintained at consistent levels due to work-over jobs and pump changes, with two work-over rigs and one pulling unit under long-term contract.

Historically, Baripetrol’s oil production was delivered to PDVSA at an average price that was approximately 85% of WTI. Effective April 15, 2008, the Windfall Profits Tax reduces the average price received by Baripetrol for oil deliveries as described above.

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

PETROFALCON FINANCIAL STATEMENTS

Please see “Current Status of PetroFalcon”.

Under the cost method of accounting adopted for the three and nine months ended September 30, 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 and nine months ended September 30, 2008, and has restated the comparable periods in 2007. To date, no dividends have been received from PetroCumarebo.

PetroFalcon’s investment in Baripetrol is also recognized under the cost method of accounting. During the nine months ended September 30, 2008, PetroFalcon received \$2.9 million in dividends from Baripetrol for operations between January and December 2007. The dividends have been credited against the historical cost of the investment instead of being recognized as income during the nine months ended September 30, 2008, because the dividends were related to earnings before the closing of the transaction.

GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSE

Please see “Current Status of PetroFalcon”.

PetroFalcon’s G&A expenses were \$2,167,365 during the three months ended September 30, 2008, as compared to \$1,534,999 during the three months ended September 30, 2007. PetroFalcon’s G&A expenses were \$5,364,323 during the nine months ended September 30, 2008, as compared to \$5,094,284 during the nine months ended September 30, 2007.

The increase in G&A expenses during the three months ended September 30, 2008, is primarily due to the \$0.3 million expense related to the data package for the Delta Caribe offshore natural gas bid process and a \$0.2 million increase in salary expense due to an increase in the number of employees.

During the nine months ended September 30, 2008, G&A expenses increased by \$0.3 million, mainly due to consultants and other expenses incurred in connection with acquisitions in Venezuela.

PetroFalcon does not capitalize general and administrative expenses.

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

Please see “Current Status of PetroFalcon”.

For the three months ended September 30, 2008, PetroFalcon’s DD&A expense was \$35,716, compared to \$26,603 for the three months ended September 30, 2007. PetroFalcon’s DD&A expense was \$87,427 during the nine months ended September 30, 2008, as compared to \$97,255 during the nine months ended September 30, 2007.

STOCK-BASED COMPENSATION

During the three months ended September 30, 2008, the Company recorded \$28,501 in stock-based compensation expense as compared to \$256,608 during the three months ended September 30, 2007. During the nine months ended September 30, 2008, the Company recorded \$783,546 in stock-based compensation expense as compared to \$1,769,731 during the nine months ended September 30, 2007.

During the nine months ended September 30, 2008, the number of outstanding stock options decreased compared to the nine months ended September 30, 2007. As of September 30, 2008, the number of outstanding stock options was 9,233,660, compared to 10,796,494 outstanding stock options as of September 30, 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 option 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

At September 30, 2008, PetroFalcon had \$23.1 million in cash and short-term deposits compared to \$4.8 million at September 30, 2007.

During the three months ended September 30, 2008, the Company recorded interest income in the amount of \$282,259 as compared to \$142,394 of interest expense during the three months ended September 30, 2007.

During the nine months ended September 30, 2008, PetroFalcon recorded interest income in the amount of \$452,624 as compared to \$543,920 of interest expense during the nine months ended September 30, 2007.

The interest expenses decreased primarily due to lower short-term debt during 2008. At September 30, 2008, PetroFalcon had no short-term debt compared to \$2.5 million at September 30, 2007.

The Company recorded stock-based financing expenses related to the Anadarko guarantee fee paid to Lundin Petroleum of \$4.6 million during the three months ended September 30, 2008, and \$7.9 million during the nine months ended September 30, 2008.

INCOME TAXES

During the three and nine months ended September 30, 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	17.0
Baripetrol	3.0
Cardon III	3.3
PetroFalcon Total 2008 Budget	23.3

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 acquisition is subject to MEP approval.

PetroCumarebo 2008 Budget:

(\$000s)	PetroCumarebo 2008 Budget	PetroFalcon 40% Share	Incurred as of Sept 30, '08 (Gross)	Incurred as of Sept 30, '08 (Net)
Drilling and Work-overs				
- La Vela	9,400	3,760	5,459	2,183
- Cumarebo	8,700	3,480	20,409	8,163
- West Falcon	400	160	-	-
- Total Drilling and Work-overs	18,500	7,400	25,868	10,346
Processing Facilities and Infrastructure				
- La Vela	4,230	1,692	581	232
- Cumarebo	3,770	1,508	467	187
- West Falcon	3,500	1,400	3,065	1,226
Total Processing Facilities and Infrastructure	11,500	4,600	4,113	1,645
Total Capital Budget	30,000	12,000	29,981	11,991

PetroCumarebo's 2008 capital expenditures budget of \$30 million (40% net to PetroFalcon being \$12 million) included drilling four development wells and two appraisal wells in Cumarebo, three deeper development wells in La Vela and one exploration wells nearby Cumarebo. Due to operational delays during 2008 and the strengthening of the implied market rate for the Bolivar against the US dollar (approximately 80% of drilling costs are Bolivar-based), the Board of

Directors of PetroCumarebo recently approved an increase in the 2008 capital expenditures budget to \$42.5 million (40% net to PetroFalcon being \$17 million).

PetroCumarebo is currently re-evaluating eight wells (LV-7, LV-10, LV-12, LV-18, LV-21, CU-169, CU-171 and CU-173) drilled in the Cumarebo and La Vela fields in areas of known hydrocarbon accumulations. The wells will be re-perforated using propellant (“stim gun” technology).

During the third quarter of 2008, PetroCumarebo finished drilling one appraisal well in the central part of the Cumarebo Field (CU-173) with the San Antonio International 421 900 HP rig. PetroCumarebo also started drilling a development well in the southern closure of the La Vela Field (LV-22).

The CU-173 well was drilled as an appraisal well to test the sand 15 reservoir in a previously undrilled fault block. After reaching a depth of 5,171 feet, the well was lost due to mechanical problems and was cemented and abandoned below 4,166 feet. Subsequently, the well was tested in sand 13 at 3,732 feet with no success. The well will be worked over during the fourth quarter and re-evaluated in sand 12 where the logs show a 100-foot prospective interval at 3,454 feet.

The LV-22 well spudded in August 2008 and reached a depth of 6,200 feet. The objective was to evaluate the Cerro Pelado sands already productive in the nearby LV-6X well. The well is under evaluation with oil rates between 50 and 80 bbls/d.

During the third quarter of 2008, PetroCumarebo performed work-over jobs on two wells in the Tigraje Field for a production increase of approximately 80 bbls/d.

PetroCumarebo also performed two work-overs on the LV-7 and LV-10 wells in La Vela in order to re-complete the wells in previously tested intervals. Both wells will be perforated with propellant and evaluated during the fourth quarter.

PetroCumarebo plans to drill the San Patricio exploration well later this year in a prospective area east of the Cumarebo Field. The well is targeting the Socorro formation 15-sand reservoir, which was recently tested in the CU-170 well, located approximately four kilometers from the San Patricio location. In the Cumarebo Field, this reservoir is currently producing close to 300 bbls/d and 10 mmcf/d from two wells.

PetroCumarebo also plans to drill the La Cruz South prospect, which is expected to contain the same Miocene reservoirs as the La Vela Field, located immediately to the west. Seismic amplitude anomalies suggest the presence of light oil and gas in this Miocene section.

De-bottlenecking of the La Vela and Cumarebo processing facilities is scheduled during the fourth quarter of 2008 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 Sept 30, '08 (Gross)	Incurred as of Sept 30, '08 (Net)
Seismic, Drilling and Work-overs				
- Rosario	1,910	96	-	-
- La Palma	33,500	1,675	5,100	255
- Socuavo	13,290	664	2,020	101
- Los Manueles	1,890	95	4,050	202
- Bonito	370	18	990	50
- West Tarra	590	30	3,040	152
- Total Drilling and Work-overs	51,550	2,578	15,200	760
Processing Facilities and Infrastructure				
- 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	-	-
Total Capital Budget	60,100	3,006	15,200	760

Baripetrol's 2008 capital expenditures budget of \$60 million (5% net to PetroFalcon being \$3 million) included 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 December 2008 and is on long-term contract to Baripetrol through 2012. Due to delays in securing the drilling rig, and in the start-up of the 3D seismic survey, Baripetrol will not spend its full capital budget in 2008.

Cardon III 2008 Budget:

(\$MMs)	Cardon III 2008 Budget	PetroFalcon 30% Share
3D Seismic Processing	8.6	2.6
Mapping, AVO, Subsurface Studies	2.3	0.7
Total Capital Budget	10.9	3.3

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

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2008, PetroFalcon had 158,501,120 issued and outstanding common shares and 172,384,780 common shares on a fully diluted basis. As of December 31, 2007, PetroFalcon had 86,581,336 issued and outstanding common shares and 97,377,830 common shares on a fully diluted basis.

As of September 30, 2008, PetroFalcon had \$23.1 million in cash, working capital of \$29.5 million and no debt. At December 31, 2007, PetroFalcon had \$4.8 million in cash and working capital of \$1.3 million. At December 31, 2007, PetroFalcon had short-term debt of \$2.5 million and no long-term debt.

At September 30, 2008, PetroFalcon had \$5.6 million in current accounts receivable compared to \$1.6 million at December 31, 2007. As of September 30, 2008, the Company had \$0.9 million in accounts payable compared to \$3.6 million at December 31, 2007.

On October 13, 2008, Vinccler Venezuela received a \$0.7 million loan from Banco Exterior to meet its short-term working capital needs. Vinccler Venezuela's local currency credit line is guaranteed by US dollars.

On October 17, 2008, Anadarko Petroleum returned \$5.1 million to PetroFalcon, which, according to the terms of the sale and purchase agreement for the proposed acquisition of Anadarko Venezuela, included the cash deposit and accrued interest.

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		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	2,315	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Net income (loss)	(2,502)	(801)	(3,538)	(119)	566	(1,675)	(4,412)	(7,121)
Earnings (loss) per share basic and diluted	(0.03)	(0.01)	(0.04)	(0.00)	0.01	(0.01)	(0.03)	(0.04)

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 and nine months September 30, 2008, and has restated the comparable periods in 2007. 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 (“Pacific Oil and Gas”) and Venezolana de Inversiones y Construcciones Clerico, C.A. (“Vinccler Construction”) are controlled by officers of PetroFalcon.

Pacific Oil and Gas is controlled by PetroFalcon’s Vice Chairman, Clarence Cottman, and PetroFalcon’s President and CEO, William Gumma. For the three months ended September 30, 2008, and 2007, the Company paid Pacific Oil and Gas for professional services in the amount of \$165,000 and \$135,000, respectively. The Company paid Pacific Oil and Gas for the nine months ended September 30, 2008, and 2007, \$435,000 and \$405,000, respectively. These payments include the salaries of Mr. Gumma and PetroFalcon’s Chief Financial Officer, Garrett Soden, as well as administrative services from Pacific Oil and Gas.

PetroFalcon occasionally receives construction services from Vinccler Construction, an independent operating construction company controlled by the Company’s Chairman, Juan Francisco Clerico. During the three and nine months ended September 30, 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 interest.

PetroFalcon also receives technical services from Lundin BV, a wholly-owned subsidiary of Lundin Petroleum. Lundin Petroleum indirectly owns 45% of PetroFalcon, and Lundin Petroleum’s CEO, Ashley Heppenstall, is a board member of PetroFalcon. For the three months ended September 30, 2008, and 2007, the Company paid Lundin BV for professional services in the amount of \$80,170 and nil, respectively. The Company paid Lundin BV for the nine months ended September 30, 2008, and 2007, \$80,170 and nil, respectively. These payments for professional services include oil and gas geology, reserve and legal advice for PetroFalcon’s business development activities.

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.

Lundin Petroleum provided a guarantee to Anadarko Petroleum for the full purchase price of Anadarko Venezuela. In consideration for the guarantee, PetroFalcon agreed to issue 17.1 million common shares of the Company to Lundin Petroleum or one of its subsidiaries, subject to regulatory approval. In April 2008, PetroFalcon issued 7.1 million of these shares to Lundin Petroleum, with a fair value of \$1.11 (CDN\$1.12) per share for a total amount of \$7,878,842. The remaining 10 million shares were due at closing and, according to the agreement, will not be issued. The initial shares have been expensed by the Company as a stock-based financing fee.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended September 30, 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

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 or by visiting the Company's website at www.petrofalcon.com.