



Building Value in Venezuela

MANAGEMENT DISCUSSION & ANALYSIS

FIRST QUARTER 2007

The following management discussion and analysis (“MD&A”) is prepared as of May 11, 2007. This MD&A, as provided by the management of PetroFalcon Corporation (“PetroFalcon” or the “Company”), should be read in conjunction with the Company's interim consolidated financial statements for the three months ended March 31, 2007, and 2006 together with the audited consolidated financial statements for the years ended December 31, 2006, and 2005. 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.

This MD&A contains the terms “cash flow from operations” and “operating netback”, which should not be considered alternatives to, or more meaningful than, cash flow from operating activities and net income as determined in accordance with Canadian GAAP as an indicator of the Company's performance. PetroFalcon's determination of “cash flow from operations” is defined as cash from operating activities before changes from non-cash working capital items, and “operating netback” is defined as revenue less operating, maintenance and transportation expenses and may not be comparable to that reported by other companies. PetroFalcon also presents cash flow from operations per share where per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. All dollar amounts are expressed in US Dollars (“USD”). Transactions and balances using Venezuelan Bolivars (“Bs”) are converted into US dollars using the temporal method at the official exchange rate (currently 2,150 Bs/USD).

For the purposes of calculating unit costs, unit netbacks and combined production and revenue, 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

Except for statements of historical fact, all statements in this MD&A, including, without limitation, statements with respect to the Empresa Mixta; 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 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 the 2007 Annual Information Form of PetroFalcon 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 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 OPERATIONS OF PETROFALCON

PetroFalcon Corporation is engaged in the exploration, development, production and management of oil and natural gas properties through its indirect wholly-owned subsidiary, Vinccler Oil and Gas, C.A. (“Vinccler Venezuela”), which owns 40% of the joint venture company (“Empresa Mixta”), PetroCumarebo, S.A. (“PetroCumarebo”). In addition, subject to an assignment agreement, a joint operating agreement and approval by the Venezuelan Ministry of Energy and Petroleum (“MEP”), Vinccler Venezuela 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.

PetroFalcon’s revenues for the three months ended March 31, 2006, were derived from the East Falcon Block under the Operating Service Agreement (“East Falcon OSA”) with Petróleos de Venezuela, S.A. (“PDVSA”), the state-owned oil and gas company of Venezuela. Effective March 21, 2006, Vinccler Venezuela completed the acquisition of West Falcon Hydrocarbons, S.R.L. (“West Falcon”), a subsidiary of Samson International LLC, which owned a separate Operating Service Agreement for the West Falcon Block (“West Falcon OSA”).

On September 29, 2006, Vinccler Venezuela and Corporación Venezolana del Petróleo (“CVP”), an affiliate of PDVSA, executed the Empresa Mixta Conversion Agreement (“Conversion Contract”), which identified PetroCumarebo and confirmed the ownership structure as 40% held by Vinccler Venezuela and 60% held by CVP. Effective April 1, 2006, Vinccler Venezuela’s East Falcon OSA and West Falcon OSA were contributed to the Empresa Mixta, PetroCumarebo. Therefore, PetroFalcon’s revenues and earnings for the three months ended March 31, 2007, were derived from Vinccler Venezuela’s proportional share of PetroCumarebo’s revenues and earnings.

PetroCumarebo Payments

As of March 31, 2007, Vinccler Venezuela has been reimbursed by PDVSA for the operating and capital expenditures advanced by Vinccler Venezuela on behalf of PetroCumarebo during the transition to the Empresa Mixta in the second, third and fourth quarters of 2006 (“the Transition Period”). Effective January 1, 2007, PetroCumarebo is operating as an independent entity with its own working capital, and funds are no longer advanced by Vinccler Venezuela for subsequent reimbursement by PDVSA. PetroCumarebo is expected to finance its future operations through cash flow from operations, cash calls to shareholders (Vinccler Venezuela and CVP) and/or through debt using its own balance sheet.

As previously announced, PetroCumarebo was not able to invoice PDVSA for oil production delivered during the Transition Period until March 29, 2007 (an amount totaling approximately \$12.3 million net of royalties). Under the terms of the Conversion Contract, PetroCumarebo is entitled to payment from PDVSA within 45 days of submitting an invoice. However, as of May 11, 2007, PetroCumarebo has not yet been paid by PDVSA for the first oil production invoice. In addition, PetroCumarebo has still not yet invoiced PDVSA for natural gas production delivered during the Transition Period (an amount expected to be approximately \$1.7 million net of royalties), because it has not received confirmation from MEP for the natural gas volumes delivered during this period. Management does not have any information as to the expected

timing of these payments, but PetroCumarebo does expect to be paid by PDVSA for all oil and natural gas delivered since April 1, 2006. Once the initial invoicing process for the Transition Period is complete, PetroCumarebo will process its backlog of invoices for the first quarter of 2007 (expected to equal approximately \$2.3 million for oil and \$26,000 for natural gas net of royalties) and proceed to invoice PDVSA for oil and natural gas deliveries on a monthly basis going forward.

PDVSA has paid royalties on the oil and natural gas production on behalf of PetroCumarebo during the second, third and fourth quarters of 2006, as well as the first quarter of 2007, and PDVSA has reimbursed Vincler Venezuela for 100% of the operating and capital expenditures advanced during the Transition Period. Given the sequence of events and the recent submission of the initial invoice to PDVSA, PetroCumarebo does not have a history of payment from PDVSA under the Conversion Contract. Until the parties have established a pattern of invoicing and receiving payment, it is possible that amounts invoiced may not be paid by PDVSA in a timely manner in accordance with the terms of the Conversion Contract.

PRODUCTION AND REVENUE

Please see “Current Status of Operations of PetroFalcon”.

Effective April 1, 2006, Vincler Venezuela’s East Falcon OSA and West Falcon OSA were converted into a 40% ownership of PetroCumarebo, a joint venture with CVP.

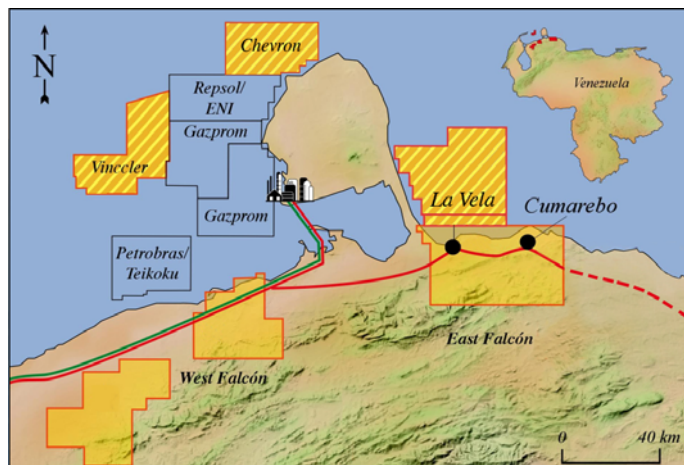
For the three months ended March 31, 2007, PetroCumarebo’s average gross production from both the East Falcon Block and West Falcon Block was 664 boe/d. PetroFalcon’s 40% share before royalties was 266 boe/d.

It is expected that oil and natural gas production will increase in 2007 from the La Vela and Cumarebo fields through development drilling, the completion of the new production facilities at La Vela and Cumarebo and from an aggressive work-over campaign in both the East Falcon Block and West Falcon Block.

EAST FALCON BLOCK

For the three months ended March 31, 2007, PetroCumarebo’s average gross production from the East Falcon Block was 439 boe/d. PetroFalcon’s 40% share before royalties was 176 boe/d. For the comparable period ended March 31, 2006, PetroFalcon’s average production was 1,182 boe/d.

At March 31, 2007, the East Falcon Block had 12 producing oil wells, 3 shut-in oil wells, no producing natural gas wells and 4 shut-in natural gas wells.



PetroCumarebo delivers natural gas into PDVSA's Interconnection Centro Occidente ("ICO") natural gas pipeline, which then transports the natural gas to the nearby Paraguana Refinery Complex. On December 6, 2006, PDVSA's ICO pipeline experienced a joint rupture, and PDVSA closed the pipeline section leading to PetroCumarebo's production in the Cumarebo Field. As a result, most of PetroCumarebo's natural gas production is temporarily shut-in, but its wells and facilities are unaffected. Management has been advised that the ICO pipeline repair should be completed by the third quarter of 2007.

As a result of the ICO pipeline rupture, PetroCumarebo has approximately 8 mmcf/d of natural gas and 150 bbls/d of oil (40% net to PetroFalcon being 3.2 mmcf/d and 60 bbls/d) shut-in at the Cumarebo Field in the East Falcon Block. Approximately 70% of PetroCumarebo's oil and natural gas production was shut-in during the three months ended March 31, 2007. Almost 60% of PetroCumarebo's total oil and natural gas production is still shut-in as of May 11, 2007. At the time of the ICO pipeline rupture, Vinccler Venezuela did not have loss of production insurance ("LOPI") covering dependency properties. Vinccler Venezuela's LOPI renewal policy, effective March 31, 2007, does cover dependency properties, including the ICO pipeline and the Paraguana Refinery Complex.

WEST FALCON BLOCK

Effective March 21, 2006, Vinccler Venezuela completed the acquisition of West Falcon, a subsidiary of Samson International LLC, which owned a separate Operating Service Agreement for the West Falcon Block. The West Falcon OSA was converted pursuant to the Conversion Contract, and the oil and gas rights are now owned by PetroCumarebo.

For the three months ended March 31, 2007, PetroCumarebo's average gross production from the West Falcon Block was 225 boe/d. PetroFalcon's 40% share before royalties was 90 boe/d.

At March 31, 2007, the West Falcon Block had 12 producing oil wells, 4 shut-in oil wells, 4 producing natural gas wells and no shut-in natural gas wells.

PRODUCTION/SALES AND REVENUES

	PetroCumarebo (Gross)	PetroFalcon (Net)	
	Three months ended Mar 31, 2007	Three months ended Mar 31, 2007	Three months ended Mar 31, 2006
Daily production/sales*			
Oil - bbls/d	620	248	815
Natural gas - mcf/d	268	107	2,205
Total – boe/d	664	266	1,182
Product pricing (\$)*			
Oil - per bbl	57.06	57.06	39.08
Natural gas – per mcf	1.56	1.56	1.33
Revenue per boe	54.05	54.05	29.41
Total Revenues (\$000s)	3,230	1,292	3,129

*Production before royalties. PetroFalcon, through Vinccler Venezuela, owns 40% of PetroCumarebo. PetroCumarebo's oil price is based on formulas in the Conversion Contract where, on average, East Falcon oil receives 100% of WTI and West Falcon oil receives 85% of WTI. Under the East Falcon OSA in the comparable period, PetroFalcon, through Vinccler Venezuela, received 61-67% of WTI for its oil production. Under the terms of the Conversion Contract, PetroCumarebo expects to receive \$1.50/mcf in Bolivars for natural gas production, with an inflation adjustment each year (for a total of \$1.56/mcf in 2007).

PetroCumarebo's gross revenues from the East Falcon Block and West Falcon Block for the three months ended March 31, 2007, were \$3.2 million. PetroFalcon's 40% share before royalties was \$1.3 million, compared to PetroFalcon's \$3.1 million in revenues from the East Falcon OSA for the three months ended March 31, 2006. The average price realized by PetroCumarebo for the three months ended March 31, 2007, was \$57.06 per barrel of oil and \$1.56 per mcf of natural gas. The combined average price for the three months ended March 31, 2007, was \$54.05 per boe. For the three months ended March 31, 2006, the average price received by PetroFalcon was \$39.08 per barrel of oil and \$1.33 per mcf of natural gas, a combined average of \$29.41 per boe.

PetroFalcon's decrease in revenue during the three months ended March 31, 2007, occurred due to lower levels of production on a boe basis; 23,922 boe net to PetroFalcon before royalties for the three months ended March 31, 2007, as compared to 106,394 boe for the three months ended March 31, 2006. The decrease in production was primarily due to PDVSA's ICO pipeline closure on December 6, 2006, which shut-in approximately 8 mmcf/d of natural gas and 150 bbls/d of oil, or approximately 1,500 boe per day of PetroCumarebo's production (40% net to PetroFalcon being 600 boe per day) from the Cumarebo Field in the East Falcon Block.

Oil and natural gas production is delivered to PDVSA, and it is expected that PetroCumarebo will receive payment for the oil and natural gas production delivered since April 1, 2006, as outlined in the Conversion Contract. The price per barrel of crude oil delivered is derived from

detailed formulas outlined in the Conversion Contract. 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 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 under the OSAs was 75% in US Dollars and 25% in Bolivars. Payment from PDVSA to PetroCumarebo will be 100% in US Dollars for crude oil and 100% in Bolivars for natural gas. The price received for natural gas is pegged to a US Dollar amount of \$1.50 per mcf (at the official fixed exchange rate, with an adjustment for inflation each year). 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 (See “PetroCumarebo Payments” above).

ROYALTIES

The Company’s share of royalties during the three months ended March 31, 2007, was \$430,651. Royalties are calculated as 33.3% of gross revenues. The Company’s production was not subject to royalties for the oil and gas production delivered under the East Falcon OSA during the comparable period ended March 31, 2006.

Under the terms of the Conversion Contract, PetroCumarebo is subject to 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. In the three months ended March 31, 2007, this amount equalled \$215,390 for Vinccler Venezuela (40% of PetroCumarebo).

OPERATING EXPENSES

(\$000s except boe amount)	Three months ended March 31, 2007	Three months ended March 31, 2006
Operating Expenses (including maintenance and transportation)	1,098	964
Average expense (\$ per boe)	45.88	9.07

Note: The per boe metrics were calculated using 23,922 boe net to PetroFalcon before royalties for the three months ended March 31, 2007, and 106,394 boe for the three months ended March 31, 2006. The decrease in production is due to the transition to the Empresa Mixta, as well as the ICO pipeline closure on December 6, 2006.

Please see “Current Status of Operations of PetroFalcon”.

PetroFalcon’s operating expenses during the three months ended March 31, 2007, were \$1,097,557 (40% of PetroCumarebo plus other operating expenses outside of PetroCumarebo). Operating expenses for the three months ended March 31, 2006, were \$964,459. Operating expenses during the previous period were incurred in accordance with the Company’s East Falcon OSA and are not be comparable to this period’s recorded expenses.

GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES

(\$000s except boe amount)	Three months ended March 31, 2007	Three months ended March 31, 2006
Expenses	1,674	923
Average expense (\$ per boe)	69.98	8.67

Note: The per boe metrics were calculated using 23,922 boe net to PetroFalcon before royalties for the three months ended March 31, 2007, and 106,394 boe for the three months ended March 31, 2006. The decrease in production is due to the transition to the Empresa Mixta, as well as the ICO pipeline closure on December 6, 2006.

Please see “Current Status of Operations of PetroFalcon”.

PetroFalcon’s general and administrative expenses were \$1,674,065 during the three months ended March 31, 2007, as compared to \$922,508 during the three months ended March 31, 2006. The increase in general and administrative expenses during the three months ended March 31, 2007, is due to Management’s decision to make a \$1.1 million provision in general and administrative expenses 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 June 2006, but Management is currently renegotiating the terms of this contract and may not be able to collect from PetroCumarebo subsequent amounts recognized in accounts receivable. General and administrative expenses during the previous period were incurred in accordance with the Company’s East Falcon OSA and are not comparable to this period’s recorded expenses.

PetroFalcon does not capitalize general and administrative expenses.

AMORTIZATION, DEPLETION AND ACCRETION (“AD&A”)

(\$000s except boe amount)	Three months ended March 31, 2007	Three months ended March 31, 2006
Amortization, Depletion and Accretion	189	513
Depletion Rate (\$ per boe)	7.92	4.82

Note: The per boe metrics were calculated using 23,922 boe net to PetroFalcon before royalties for the three months ended March 31, 2007, and 106,394 boe for the three months ended March 31, 2006. The decrease in production is due to the transition to the Empresa Mixta, as well as the ICO pipeline closure on December 6, 2006.

Please see “Current Status of Operations of PetroFalcon”.

For the three months ended March 31, 2007, PetroFalcon’s AD&A was \$189,450, which compares to AD&A of \$512,688 for the three months ended March 31, 2006. AD&A during the

previous period was incurred in accordance with the Company's East Falcon OSA and is not comparable to this period's AD&A.

INTEREST INCOME AND EXPENSE

At March 31, 2007, PetroFalcon had \$9.8 million in cash and short-term deposits compared to \$10.5 million at March 31, 2006. During the three months ended March 31, 2007, the Company recorded interest income in the amount of \$93,595 as compared to \$43,615 during the three months ended March 31, 2006.

PetroFalcon incurred interest expense of \$367,255 during the three months ended March 31, 2007, as compared to \$813,509 during the three months ended March 31, 2006. The decrease in interest expense is primarily due to the conversion of the outstanding debt from the World Bank's private investment arm, the International Finance Corporation ("IFC").

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 now converted the entire \$12 million disbursed in 2005 into common shares of PetroFalcon, which means PetroFalcon has zero long-term debt, and the IFC is a significant shareholder of the Company.

STOCK-BASED COMPENSATION

During the three months ended March 31, 2007, the Company recorded \$737,638 in stock-based compensation expense as compared to \$590,000 during the three months ended March 31, 2006. Higher stock-based compensation was due to a greater number of stock options vesting during the period.

INCOME TAXES

(\$000s)	Three months ended March 31, 2007	Three months ended March 31, 2006
Consolidated Income Tax Expense	-	542

During the three months ended March 31, 2007, PetroFalcon recorded no income tax expense, compared to \$542,389 during the three months ended March 31, 2006.

During 2005, Vinccler Venezuela received tax assessments from the National Integrated Customs and Tax Administration Service ("SENIAT"), the Venezuelan tax authorities, with respect to the income tax returns for the years ended December 31, 2001, to 2004 for a total of \$3.3 million (Bs.7.7 billion), payable in nominal Bolivars. The revised tax assessment was mainly due to the SENIAT's reinterpretation of Vinccler Venezuela's business purpose. The SENIAT stresses that under its income tax laws, Vinccler Venezuela is an oil and gas producing company instead of an operating service company. Thus, the income tax expense for the audited years had to be recalculated at the rate of 50% (rather than the previous rate of 34%). On

January 26, 2006, Vinccler Venezuela filed a discharge claim with SENIAT. During the three months ended March 31, 2006, Vinccler Venezuela received the final settlement resulting in additional income tax expense of \$542,389 for the four years ended December 31, 2004.

CAPITAL BUDGET FOR 2007

Please see “Current Status of Operations of PetroFalcon”.

The following tables outline PetroCumarebo’s capital budget for the year ended December 31, 2007, as well as Vinccler Venezuela’s commitment to Chevron on its new partnership in the Cardon III Block in the Gulf of Venezuela. The PetroCumarebo 2007 Budget represents the gross budget of the Empresa Mixta, of which Vinccler Venezuela will be responsible for 40%. Separately, the Cardon III Block’s budget represents the gross budget of the natural gas license for the Cardon III Block to date, as well as the planned expenditures for 2007, of which Vinccler Venezuela will be responsible for 30%. **Additional financing will be needed to meet these budget requirements in 2007, but funding may not be available on terms and conditions acceptable to the Company or PetroCumarebo. If funds are not available, Vinccler Venezuela risks defaulting on commitments to PetroCumarebo and Cardon III, which could result in interest charges or a dilution of Vinccler Venezuela’s equity interests.**

PetroCumarebo:

(\$000s)	PetroCumarebo 2007 Budget	PetroFalcon 40% Share	Incurred As of Mar 31, '07 (Gross)	Incurred As of Mar 31, '07 (Net)
Drilling				
- La Vela	14,700	5,880	3,689	1,475
- Cumarebo	5,700	2,280	-	-
- West Falcon	-	-	-	-
- Total Drilling	20,400	8,160	3,689	1,475
Processing Facilities and Infrastructure				
- La Vela	4,400	1,760	-	-
- Cumarebo	2,800	1,120	-	-
- West Falcon	-	-	-	-
- Total Central Processing Facilities	7,200	2,880	-	-
Total Capital Budget	27,600	11,040	3,689	1,475

The 2007 budget of PetroCumarebo for the development of the East Falcon Block and West Falcon Block was established by the board of PetroCumarebo to exploit PetroCumarebo's inventory of development wells and locations. First, 8 wells will be drilled in the La Vela Field in order to develop the shallow oil and gas reserves discovered with the LV-10 well in 2005. Afterwards, PetroCumarebo will drill 3 wells in the Cumarebo Field on existing locations, including two development wells and one delineation well, which may extend the limits of a proven gas/condensate reservoir in the northeast portion of the Cumarebo Field. At the end of 2007, two exploratory wells in the La Cruz and San Patricio areas of the East Falcon Block are being contemplated in order to target potential oil and gas reserves. These wells would likely be drilled under a revised 2007 or 2008 capital budget.

De-bottlenecking of the La Vela and Cumarebo processing facilities is also included in the PetroCumarebo 2007 budget in order to increase the dew point processing plants capacities to 20 mmcf/d of natural gas in La Vela and 30 mmcf/d of natural gas in Cumarebo. The 2007 budget also includes the commencement of engineering work on the La Vela processing facilities.

DRILLING AND WORKOVERS

As previously announced, PetroCumarebo commenced drilling operations on November 30, 2006, at the La Vela Field in the East Falcon Block on Platform-A with the Pride 421 900 HP rig. Since beginning drilling operations, PetroCumarebo has drilled seven wells, completed four, tested one and will complete another shortly. Four wells remain to be tested shortly. Potential commercial natural gas production from the La Vela Field is not affected by PDVSA's recent ICO pipeline closure, as the pipeline rupture occurred east of the La Vela Field and only affects PetroCumarebo's production from the Cumarebo Field.

LV-11 well

The LV-11 well was drilled to a total planned depth of 3,120 feet on December 22, 2006, and, according to mud logs, encountered thick sections of potential oil and gas reservoirs in the same stratigraphic column as in the LV-10 discovery well. The LV-11 well confirmed Vinccler Venezuela's structural interpretation and the continued presence of oil and gas reservoirs. However, excessive loss of mud and unexpected pressure at the wellhead forced PetroCumarebo to abandon the well without logging and to re-drill the well as LV-12.

LV- 12 well

The LV-12 well was successfully drilled to a total planned depth of 3,167 feet on January 13, 2007, and, according to wireline logs, encountered 136 feet of net hydrocarbon sands in the Caujarao and Socorro formations. After construction of the flowline and connection to the trunkline, the well was perforated from 2,460 to 2,584 feet in the middle Miocene Socorro formation and tested at a rate of 5 mmcf/d with a flowing tubing pressure of 1,000 psig on a half-inch choke. There is an additional 102 feet of potential shallow oil and gas reservoirs that remains to be tested in the upper Socorro formation and in the still shallower Caujarao formation. The well is expected to be put on production shortly.

LV-13 well

The LV-13 well, planned as a deviated J-shape well from Platform A, was abandoned after a blowout of shallow gas occurred at 696 feet on January 25, 2007. Vinccler Venezuela expects to recover its 40% cost (approximately \$800,000) for the LV-13 well from its well control insurance policy after a \$100,000 net deductible.

LV-14 well

The LV-14 well, the first well in the La Vela Platform B cluster, was successfully drilled to a depth of 3,168 feet on March 12, 2007, and was found to be 67 feet high to the LV-12 well at the top of the Socorro formation. According to wireline logs, the well encountered 98 feet of hydrocarbon bearing sands in the Caujarao and Socorro formations, including 27 feet in the middle Socorro reservoir already found in LV-12, thereby confirming the potential of the Socorro section in the area. The rest of the pay zones were found in Upper Socorro and Caujarao formations, which have not been tested yet in the area and represent added potential for oil and gas development in the La Vela Field. The well has been completed mechanically and will be tested shortly.

LV-15 well

The LV-15 well was drilled to be a specific gas producer from the Caujarao shallow gas formation. The well was successfully completed to a depth of 1,975 feet on March 30, 2007, and will be tested in the Caujarao gas sands at 1,000 and 1,100 feet.

LV-16 well

The LV-16 well was successfully drilled to a depth of 3,187 feet on April 13, 2007. The well was designed to reach the basal Socorro formation sand that had already been found in the LV-10 and LV-12 wells in the western part of the structure, but which had not yet been penetrated by the previous wells in the eastern side of the structure (LV-14 and LV-15). Electric logs showed a 45-foot hydrocarbon bearing sand at the base of the Socorro formation. The well was successfully completed and will be tested shortly after demobilizing the drilling rig.

LV-17 well

The LV-17 well is currently being drilled as a J-type directional well from the Platform B cluster towards the north in order to delineate the northern limit of the reservoirs found in the Caujarao and Socorro formations. The total depth of 3,344 feet was reached on May 1, 2007, and, according to mudlogs, a new 25-foot thick sand in the Socorro formation seems to have been discovered. Additionally, the middle Socorro sand found in LV-14 and LV-16 is also present in this well, and according to the structural interpretation, the reservoir extends farther north than previously expected. The well is currently being conditioned for logs and casing.

Workovers

At the West Falcon Block, PetroCumarebo recently began a workover and maintenance campaign by contracting a 400 HP workover rig. Operations started with down-hole pump replacements in seven wells, TIG-29, TIG-25, TIG-05, TIG-20, TIG-15A, TIG-32 and TIG-12, recovering 250 bbls/d that were shut in. Also, new intervals were perforated in the MON-18 well with a wireline unit, adding 40 bbls/d. The workover rig is now moving to the Cumarebo Field and will perform well maintenance. An additional 100 bopd are expected from this campaign.

Production

The current gross production of PetroCumarebo is approximately 900 bbls/d of oil, with 150 bbls/d of oil and 8 mmcf/d of natural gas shut-in due to PDVSA's ICO pipeline closure. Depending on available financing and the results of PetroCumarebo's drilling and workover program, PetroCumarebo's 2007 budget of \$27.6 million is estimated to significantly increase production for the East Falcon Block and the West Falcon Block to approximately 2,500 bbls/d of oil and 20 mmcf/d of gas (40% net to Vinccler Venezuela being 1,000 bbls/d of oil and 8 mmcf/d of natural gas).

Cardon III Block:

(\$000s)	Cardon III Budget	PetroFalcon 30% Share
Chevron Bid Bonus (2005)	5,600	1,680
Related Costs before January 1, 2007*	1,800	540
530 km ² of 3-D Seismic (2007)**	5,000	1,500
Total Cost to Drilling Decision***	12,400	3,720

*Vinccler Venezuela signed a Heads of Terms agreement on January 24, 2007, for the acquisition of 30% of the natural gas license for the Cardon III Block from Chevron, effective January 1, 2007.

**3-D seismic data acquisition on the Cardon III Block was completed on April 14, 2007.

***The drilling decision for an exploration well is expected in the fall of 2007.

Vinccler Venezuela's acquisition of 30% of the offshore natural gas license for the Cardon III Block from Chevron is subject to the negotiation and execution of an assignment agreement and a joint operating agreement between Chevron and Vinccler Venezuela within 6 months of the effective date of January 1, 2007, as well as the receipt of approval from MEP within 12 months of the effective date. The total cost from bid bonus to a drilling decision on the Cardon III Block is estimated to be \$3.7 million net to PetroFalcon. On March 9, 2007, Vinccler Venezuela paid Chevron \$2.2 million of this amount, which was 30% of Chevron's total costs related to Cardon III before the effective date. Under the agreement, all funds paid by Vinccler Venezuela to Chevron will be returned if MEP approval is denied. Following the evaluation of the 3-D seismic data later this year, Chevron and Vinccler Venezuela will decide whether to proceed

with an exploration well in 2008, at an additional estimated cost of \$3 million net to PetroFalcon. If successful, first commercial production of natural gas from Cardon III is expected in 2011.

CASH FLOW FROM OPERATIONS*

(\$000s except per share data)	Three months ended March 31, 2007	Three months ended March 31, 2006
Cash flow from operations*	(1,518)	(78)
Per basic share	(0.02)	(0.00)
Net (loss) income	(2,445)	(1,181)
Per basic share	(0.03)	(0.02)
Working capital	(867)	5,252

* This is a non-GAAP measure of profitability

Please see “Current Status of Operations of PetroFalcon”.

OPERATING NETBACK

(\$ per boe)	Three months ended March 31, 2007	Three months ended March 31, 2006
Sales price	54.05	29.41
Operating expenses	(45.88)	(9.07)
Operating netback*	8.17	20.35

* This is a non-GAAP measure of profitability

LIQUIDITY AND CAPITAL RESOURCES

As of May 11, 2007, PetroFalcon had 86,431,336 issued and outstanding common shares and 96,767,830 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. As of December 31, 2006, PetroFalcon had 86,331,336 issued and outstanding common shares and 96,837,830 common shares on a fully diluted basis.

As of March 31, 2007, PetroFalcon had \$9.8 million in cash and short-term deposits and a working capital deficit of \$867,300. As of March 31, 2007, PetroFalcon's total short-term debt was \$12.5 million and total long-term debt was zero. At December 31, 2006, PetroFalcon had \$11.9 million in cash and short-term deposits and working capital of \$4.3 million. At December 31, 2006, PetroFalcon had total current debt of \$11.9 million and total long-term debt of zero.

At March 31, 2007, PetroFalcon had \$12.1 million in accounts receivable compared to \$13.3 million at December 31, 2006 (See "PetroCumarebo Payments" above). As of March 31, 2007, the Company had \$11.4 million in accounts payable compared to \$10.0 million at December 31, 2006. The increase in accounts payable is mainly a result of proportionally consolidating 40% of PetroCumarebo's obligations to PDVSA for the operating and capital expenditures paid by PDVSA on behalf of PetroCumarebo during the Transition Period, plus the royalties paid by PDVSA on behalf of PetroCumarebo during the Transition Period and the three months ending March 31, 2007.

The planned growth and development activities for the next twelve months will require additional funds. PetroFalcon Management anticipates that these funds will be obtained from lines of credit and additional debt or equity securities financing. The Company cannot be certain that capital will be available when needed.

Please see Note 1 "Going Concern" in PetroFalcon's consolidated financial statements for the three months ended March 31, 2007.

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)	2005			2006				2007
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	2,469	3,055	3,256	3,129	NA	5,707	2,315	1,292
Net income (loss)	428	1,087	(1,128)	(1,181)	(1,700)	(1,313)	(2,502)	(2,445)
Earnings (loss) per share basic and diluted	0.01	0.01	(0.01)	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)

Note: Q2 2006 revenue is shown as "NA", because, under the Transitional Period terms, PetroFalcon did not recognize revenue from PetroCumarebo during the three months ended June 30, 2006. This revenue was subsequently recognized in Q3 2006.

RELATED PARTY TRANSACTIONS

Pacific Oil and Gas, LLC and Venezolana de Inversiones y Construcciones Clerico, C.A. are controlled by officers of PetroFalcon. For the three months ended March 31, 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, compared to \$210,000 for the three months ended March 31, 2006. 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. These payments are recovered from Vinccler Venezuela through a technical service operating agreement.

PetroFalcon also receives construction services provided by Venezolana de Inversiones y Construcciones Clerico, C.A., an independent operating construction company controlled by the Company's Chairman of the Board and Chief Executive Officer, Juan Francisco Clerico. During the three months ended March 31, 2007, PetroFalcon did not receive services from Venezolana de Inversiones y Construcciones Clerico, C.A. (compared to \$11,619 during the three months ended March 31, 2006). On August 25, 2006, Venezolana de Inversiones y Construcciones Clerico, C.A. 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. This amount has not been repaid as of March 31, 2007.

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

During the three months ended March 31, 2007, 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 SEDAR at **www.sedar.com** or by visiting **www.petrofalcon.com**.