

PetroFalcon Corporation

Interim Consolidated Financial Statements

(Unaudited)

June 30, 2007, and 2006

(expressed in U.S. dollars)

The accompanying unaudited interim consolidated financial statements of PetroFalcon Corporation (the "Corporation") for the three and six months ended June 30, 2007, and 2006, have been prepared by Management and approved by the Audit Committee of the Corporation.

PetroFalcon Corporation
Interim Consolidated Balance Sheets
(Unaudited)

(expressed in U.S. dollars)

	June 30, 2007	December 31, 2006
	\$	\$
Assets		
Current assets		
Cash	11,793,011	11,894,574
Accounts receivable	12,832,912	13,297,485
Income tax recoverable	2,339,885	1,454,140
	<u>26,965,808</u>	<u>26,646,199</u>
Property and equipment	<u>52,690,292</u>	<u>50,538,243</u>
	<u>79,656,100</u>	<u>77,184,442</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	17,578,631	10,022,193
Income tax payable (note 10)	459,654	459,654
Short-term debt (note 8)	10,872,481	11,912,791
	<u>28,910,766</u>	<u>22,394,638</u>
Provision for future employee benefits	546,130	546,130
Provision for asset retirement obligation	453,583	431,983
	<u>29,910,479</u>	<u>23,372,751</u>
Shareholders' equity		
Capital stock (note 7)	51,608,746	51,547,584
Warrants (note 7)	-	118,571
Contributed surplus (note 7)	7,538,788	6,025,665
Accumulated deficit	<u>(9,401,913)</u>	<u>(3,880,129)</u>
	<u>49,745,621</u>	<u>53,811,691</u>
	<u>79,656,100</u>	<u>77,184,442</u>
<i>Going Concern (note 1)</i>		

PetroFalcon Corporation

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

(expressed in U.S. dollars)

	Six months ended June 30,		Three months ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenue (notes 1 and 2)				
Oil and gas	3,216,877	3,129,029	1,924,795	-
Royalties	(1,072,185)	-	(641,534)	-
Special advantage tax	(536,254)	-	(320,863)	-
	<u>1,608,438</u>	<u>3,129,029</u>	<u>962,398</u>	<u>-</u>
Expenses				
Operating, maintenance and transport	2,645,696	1,140,947	1,548,139	176,488
General and administrative	3,421,621	1,364,571	1,747,557	442,063
Amortization, depletion and accretion	410,065	595,386	220,615	82,698
Stock-based compensation	1,513,122	1,277,149	775,485	687,149
	<u>7,990,504</u>	<u>4,378,053</u>	<u>4,291,796</u>	<u>1,388,398</u>
Loss before financing income (expenses) and income taxes	<u>(6,382,066)</u>	<u>(1,249,024)</u>	<u>(3,329,398)</u>	<u>(1,388,398)</u>
Financing income (expenses)				
Interest on bank loans	(737,502)	(1,288,050)	(371,089)	(474,541)
Interest on bank deposits	161,525	109,727	68,772	66,112
Gain on financing transactions (note 6)	1,205,116	-	344,651	-
Gain on foreign exchange	231,143	88,996	210,106	96,767
	<u>860,282</u>	<u>(1,089,327)</u>	<u>252,440</u>	<u>(311,662)</u>
Loss before income tax	<u>(5,521,784)</u>	<u>(2,338,351)</u>	<u>(3,076,958)</u>	<u>(1,700,060)</u>
Income tax (note 10)	-	(542,389)	-	-
Net loss and comprehensive loss	<u>(5,521,784)</u>	<u>(2,880,740)</u>	<u>(3,076,958)</u>	<u>(1,700,060)</u>
Retained earnings (accumulated deficit) – Beginning of period	<u>(3,880,129)</u>	<u>2,815,542</u>	<u>(6,324,955)</u>	<u>1,634,862</u>
Retained earnings (accumulated deficit) – End of period	<u>(9,401,913)</u>	<u>(65,198)</u>	<u>(9,401,913)</u>	<u>(65,198)</u>
Basic and diluted loss per share (note 13)	<u>(0.06)</u>	<u>(0.03)</u>	<u>(0.04)</u>	<u>(0.02)</u>

Going Concern (note 1)

PetroFalcon Corporation

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in U.S. dollars)

	Six months ended June 30,		Three months ended June 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Cash provided by (used in)				
Operating activities				
Net loss	(5,521,784)	(2,880,740)	(3,076,959)	(1,700,060)
Items not affecting cash				
Amortization, depletion and accretion	410,065	595,386	220,615	82,698
Other	(118,571)	-	(118,571)	-
Foreign Exchange	(213,904)	(34,396)	(202,720)	(34,396)
Stock-based compensation	1,513,122	1,277,149	775,484	687,149
	(3,931,072)	(1,042,601)	(2,402,151)	(964,609)
Net change in non-cash working capital items				
Accounts receivable	464,573	9,872,689	(701,128)	1,926,085
Accounts payable and accrued liabilities	2,506,603	(2,794,291)	2,491,195	(3,539,272)
Income taxes payable – net	(885,745)	(471,525)	(772,043)	(897,280)
	(1,845,641)	5,564,272	(1,384,127)	(3,475,076)
Financing activities				
Issuance (repayment) of long-term debt	(1,040,310)	(11,628)	(1,579,845)	2,000,000
Foreign exchange	213,904	-	202,720	-
Issue of shares	61,162	-	-	-
Proceeds received on exercise of share options and warrants	-	117,854	-	117,854
	(765,244)	106,227	(1,377,125)	2,117,854
Investing activities				
Purchase of West Falcon Hydrocarbons, S.R.L. (note 2)	-	(2,016,214)	-	-
Proceeds on sale of property and equipment	5,301,307	-	5,301,307	-
Acquisition of property and equipment	(7,841,821)	(1,772,508)	(4,150,320)	(718,153)
Movement in non-cash working capital from investing activities	5,049,836	(161,166)	3,644,074	2,571,686
	2,509,322	(3,949,888)	4,795,061	1,853,533
Net (decrease) increase in cash during period	(101,563)	1,720,610	2,033,809	496,311
Cash – Beginning of period	11,894,574	9,297,444	9,759,202	10,521,743
Cash – End of period	11,793,011	11,018,054	11,793,011	11,018,054
Supplementary information				
Interest paid	731,736	1,113,397	445,818	1,039,539
Income tax paid	885,745	788,233	378,456	448,472

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Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

1 Going Concern

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Corporation reported a net loss of \$3.1 million for the three months ended June 30, 2007, and a net loss of \$5.5 million for the six months ended June 30, 2007. In addition, the Corporation had a working capital deficit of \$1.9 million at June 30, 2007. The Corporation's ability to continue as a going concern is dependent upon the Corporation's ability to raise capital; the success of any drilling and exploration program; and the ability to access funds from PetroCumarebo. There can be no assurance that the Corporation will be successful with any of these initiatives. The accompanying interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Corporation be unable to continue as a going concern.

The Corporation depends on annual dividend payments and quarterly loans against those dividends, derived from its 40% interest in PetroCumarebo. Any material failure of PetroCumarebo to be paid for the oil and natural gas production delivered to Petr leos de Venezuela, S.A. ("PDVSA"), the state-owned oil and gas company of Venezuela, would affect PetroCumarebo's ability to pay dividends, which would have a material adverse effect on the Corporation's business, financial condition and results of operations. In addition, any decision by PetroCumarebo not to pay dividends to its shareholders would have a material adverse effect on the Corporation's business, financial condition and results of operations (see Note 2).

Additional financing will be needed to meet the Corporation's budget requirements in 2007, but funding may not be available on terms and conditions acceptable to the Corporation or PetroCumarebo. If funds are not available, Vinccler Venezuela risks defaulting on commitments to PetroCumarebo and Chevron Corporation ("Chevron"), which could result in interest charges or a dilution of Vinccler Venezuela's equity interests (see Note 14 regarding the potential financing from Lundin Petroleum).

2 Description of business

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").

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 PDVSA.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

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. Under the terms of the Conversion Contract, Vinccler Venezuela's East Falcon OSA and West Falcon OSA were contributed to the Empresa Mixta PetroCumarebo effective April 1, 2006.

Therefore, PetroFalcon's revenues for the three and six months ended June 30, 2007, were derived from Vinccler Venezuela's proportional share of PetroCumarebo's revenues. However, on a comparative basis, PetroFalcon was not able to recognize revenue in the comparable three months ended June 30, 2006, due to the fact that the conversion to the Empresa Mixta had not yet been completed.

PetroCumarebo Payments

PetroFalcon has recognized its proportional share of revenues for the value of oil and gas delivered by PetroCumarebo to PDVSA during the periods following the execution of the Conversion Contract.

PetroCumarebo was not able to invoice PDVSA until March 29, 2007, for oil production delivered April to December 2006 (an amount totalling approximately \$12.3 million net of royalties). As of June 30, 2007, PetroCumarebo has been paid for invoices relating to the four months of oil production from April to July 2006 (totalling approximately \$5.9 million net of royalties). In addition, PetroCumarebo delivered invoices to PDVSA for the four months of oil production from January to April 2007 (totalling approximately \$3.2 million net of royalties). Payments of oil production invoices rendered for the months of August 2006 to April 2007 remain outstanding (see Note 14 regarding subsequent payment and invoicing).

PetroCumarebo has still not yet invoiced PDVSA for natural gas production delivered since April 2006 (an amount expected to be approximately \$1.8 million net of royalties as of June 30, 2007), because it has not yet received confirmation from the Venezuelan Ministry of Energy and Petroleum ("MEP") for the natural gas volumes delivered.

Management does not have any information as to the expected timing of these invoices and payments, but PetroCumarebo does expect to be paid by PDVSA for all oil delivered since August 2006 and all natural gas delivered since April 2006. Once the initial invoicing process is complete and a regular procedure has been established, PetroCumarebo expects to be paid for its backlog of invoices and will proceed to invoice PDVSA for oil and natural gas deliveries on a monthly basis going forward.

Under the terms of the Conversion Contract, PetroCumarebo is entitled to payment from PDVSA within 45 days of submitting an invoice. Given the sequence of events and the recent submission of the initial invoices to PDVSA, PetroCumarebo has a limited history of payment from PDVSA

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(expressed in U.S. dollars)

under the Conversion Contract. To date, amounts invoiced have not been paid by PDVSA in a timely manner in accordance with the terms of the Conversion Contract.

3 Significant accounting policies

The interim consolidated financial statements include the accounts of the Corporation, its wholly owned subsidiaries and its 40% jointly controlled investment in PetroCumarebo, S.A. These interim consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2006, except as described in note 4.

4 Change in accounting policy

The Corporation adopted CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement", along with two companion standards, Section 1530 "Comprehensive Income" and Section 3865 "Hedges", effective January 1, 2007, which includes the following changes:

- Establish a new measure of income – comprehensive income. Comprehensive income represents the entire change in the net assets of an entity for a period, other than changes attributable to transactions with owners.
- Require an entity to account for certain financial assets and liabilities at fair value.
- Define derivative and expand the concept to include certain non financial items.
- Require an entity to account separately for certain derivatives embedded in non derivative contracts.
- Establish principles that determine when an entity should recognize a financial asset or liability.
- Prohibit accounting for debt issue costs as deferred charges.
- Require an entity to calculate the effective interest rate using its best estimate of cash flows and the expected life of the instrument rather than the contractual cash flows or contractual life of the instrument.
- Establish the framework to recognize and measure impairment in financial assets.
- Require an entity to recognize a guarantee at its fair value at the date of its issue, regardless of the probability of payment.
- Require the recognition of hedge ineffectiveness in earnings when it arises.

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Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

There was no significant effect of adopting these standards on the Corporation's financial statements.

5 Acquisition of joint property rights

On January 24, 2007, Vinccler Venezuela and Chevron signed 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 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. The transaction is subject to the approval of MEP within 12 months of the effective date of January 1, 2007.

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. Under the agreement, all funds paid by Vinccler Venezuela to Chevron will be returned without interest if MEP approval is denied. After receiving MEP approval and executing the joint operating agreement, Vinccler Venezuela will have 30 working days to pay Chevron 30% of the additional costs related to the Cardon III Block after the effective date.

6 Gain on financing transactions

During the three months ended June 30, 2007, Vinccler Venezuela recorded a gain of \$344,651 as a result of the purchase and sale of US dollar denominated Venezuelan government bonds. During the six months ended June 30, 2007, Vinccler Venezuela recorded a gain of \$1.2 million as a result of the purchase and sale of US dollar denominated Venezuelan government bonds. No gain on financing transactions was recorded during the three and six months ended June 30, 2006.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

7 Capital stock

Authorized

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

Issued

	Number of Shares	Amount \$
As at December 31, 2006	86,331,336	51,547,584
Issue of shares (for options exercised)	100,000	61,162
As at June 30, 2007	86,431,336	51,608,746

Common stock

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

Stock option plan

The following is a summary of the status of PetroFalcon's stock option plan and changes during the six months ended June 30, 2007, and the year ended December 31, 2006:

	June 30, 2007		December 31, 2006	
	Share Options	Weighted- average exercise price CDN\$	Share Options	Weighted- average exercise price CDN\$
Outstanding – Beginning of period	10,406,494	1.85	8,896,194	1.86
Granted	1,070,000	1.00	1,925,000	1.72
Exercised	(100,000)	0.72	(149,700)	1.04
Cancelled	(70,000)	2.02	(265,000)	1.91
Outstanding – End of period	11,306,494	1.80	10,406,494	1.85
Options exercisable – End of period	9,017,488	1.77	7,302,649	1.68

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

Stock options outstanding at June 30, 2007, are summarized below:

Exercise price CDN\$	Outstanding stock options		Exercisable stock options
	Number	Weighted average remaining contractual life	Number
\$0.50	250,000	0.55 years	250,000
\$1.00	3,298,654	5.94 years	3,298,654
\$1.00	1,070,000	10.00 years	106,666
\$1.13	75,000	9.13 years	25,000
\$1.23	150,000	9.49 years	-
\$1.30	13,340	6.25 years	13,340
\$1.45	40,000	9.00 years	20,000
\$1.55	450,000	8.69 years	337,500
\$1.93	980,000	8.75 years	735,000
\$2.05	30,000	8.33 years	10,000
\$2.20	290,000	6.75 years	290,000
\$2.35	1,850,000	6.95 years	1,850,000
\$2.38	300,000	8.25 years	100,000
\$2.39	1,509,500	7.95 years	1,314,662
\$3.28	1,000,000	7.43 years	666,666
	<u>11,306,494</u>		<u>9,017,488</u>

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

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

Issue of warrants

On June 28, 2005, PetroFalcon issued 100,000 warrants with an exercise price of CDN\$2.17 per warrant in connection with the financing done by the World Bank's private investment arm, the International Finance Corporation ("IFC"). There were no proceeds received by the Corporation from the issue of warrants. The warrants expired unexercised as of June 30, 2007.

West Falcon equity payment

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

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

8 Short-term debt

The Corporation's short-term debt consists of the following:

	June 30, 2007	December 31, 2006
Due to Venezolana de Inversiones y Construcciones Clérico, C.A. (Vinccler Construction) with no specific terms of repayment, unsecured and non-interest bearing (see Note 9)	350,000	350,000
Unsecured bank loans bearing interest at 14%, 90 days revolving basis, payable in Bolivars	10,522,481	11,562,791
	<u>\$10,872,481</u>	<u>\$11,912,791</u>

Short-term local bank loans consisted of Vinccler Venezuela's lines of credit with Venezuelan banks to meet its short-term working capital and local currency financing. Vinccler Venezuela's local currency credit line is guaranteed by a \$3 million deposit.

9 Related party transactions and balances

Pacific Oil and Gas, LLC and Venezolana de Inversiones y Construcciones Clerico, C.A. ("Vinccler C.A.") are controlled by officers of PetroFalcon. For the three months ended June 30, 2007, the Corporation 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 June 30, 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. For the six months ended June 30, 2007, the Corporation paid to Pacific Oil and Gas, LLC \$270,000, compared to \$420,000 for the six months ended June 30, 2006.

PetroFalcon also receives construction services provided by Vinccler C.A., an independent operating construction company controlled by the Corporation's Chairman and Chief Executive Officer, Juan Francisco Clerico. During the three month periods ended June 30, 2007, and 2006, PetroFalcon did not receive services from Vinccler C.A. During the six months ended June 30, 2007, the PetroFalcon did not receive services from Vinccler C.A., compared to \$11,669 during the six months ended June 30, 2006. On August 25, 2006, Vinccler 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 June 30, 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.

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Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

10 Income Tax

During the six months ended June 30, 2007, the Corporation did not record a current income tax expense (\$542,389 during the six months ended June 30, 2006).

11 Financial instruments

The Corporation is exposed to fluctuations in commodity prices, interest rates and Canada/U.S. dollars and Venezuelan Bolivar/U.S. dollar exchange rates. The Corporation, where appropriate, utilizes financial instruments to manage its exposure to these risks. During the three and six months ended June 30, 2007, the Corporation did not hold or issue any derivative financial instruments. The Corporation's financial assets and liabilities as at June 30, 2007, included cash, accounts receivable and accounts payable. Fair values approximate carrying values unless otherwise stated. Additionally, the Corporation's financial instruments include long-term debt that bears interest at market-related rates, which approximates fair value.

12 Commitments and contingencies

At June 30, 2007, the Corporation's significant commitments were derived from its participation in PetroCumarebo, which had one drilling rig on long-term contract (expiring January 2008) for \$22,000 per day; two compressors leased for a total of \$7,242 per month; and four compressors leased for a period of 5 years with payments of \$85,700 per month.

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(Unaudited) For the three and six months ended June 30, 2007, and 2006

(expressed in U.S. dollars)

13 Earnings (loss) per share

	Six months ended		Three months ended	
	2007	2006	2007	2006
Net loss	(\$5,521,784)	(\$2,880,740)	(\$3,076,958)	(\$1,700,060)
Weighted average number of common shares	86,381,336	79,891,083	86,381,336	80,766,083
Stock options and warrants*	250,000	4,261,994	250,000	4,261,994
Basic (loss) earnings per share	(\$0.06)	(\$0.03)	(\$0.04)	(\$0.02)
Diluted (loss) earnings per share*	(\$0.06)	(\$0.03)	(\$0.04)	(\$0.02)

* The calculation of diluted earnings per common share excludes 11,056,494 options outstanding during the three and six months ended June 30, 2007, and 6,129,500 options outstanding during the three and six months ended June 30, 2006, as these would have been anti-dilutive to the calculation.

14 Subsequent Events

Subsequent to June 30, 2007, PetroFalcon entered into a binding letter of intent (“Letter of Intent”) with Lundin Petroleum AB (“Lundin Petroleum”) to acquire 100% of the issued and outstanding securities of Lundin Latina de Petróleos, S.A. (“Lundin Venezuela”) for the aggregate purchase price of approximately \$44.0 million, payable by the issuance of approximately 57.3 million common shares of PetroFalcon at a price of CDN\$0.80 per share. The securities of Lundin Venezuela are held by a subsidiary of Lundin Petroleum.

Lundin Venezuela owns a 5% interest in Baripetrol, an Empresa Mixta with PDVSA, Tecpetrol and Perenco operating the Colon Unit in western Venezuela. In addition to the 5% interest in Baripetrol, Lundin Venezuela currently has assets including a cash position of approximately \$600,000 and an accounts receivable of \$21.4 million.

The acquisition is subject to a number of conditions, including the negotiation of a definitive agreement, the receipt of required regulatory approvals, shareholders consent and required Venezuelan government approvals.

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Concurrent with the closing of the acquisition, the accounts receivable will be paid, such that Lundin Venezuela will have \$22.0 million in cash. In addition, the Letter of Intent provides for the completion of a private placement of units of PetroFalcon for gross proceeds of approximately \$5.1 million at a price of CDN\$0.80 per unit resulting in the issuance of five million warrants and approximately 6.7 million common shares. Each warrant shall entitle the holder to acquire an additional common share of PetroFalcon at an exercise price of CDN\$1.20 for a period of 2 years from the date of issue.

PetroFalcon has retained the services of Nanes Delorme Capital Management LLC related to this acquisition and upon completion of the acquisition has agreed to pay a success fee consisting of \$543,600 and 569,284 common shares.

Subsequent to June 30, 2007, PDVSA paid PetroCumarebo for oil production invoices relating to August and September 2006 (totalling \$3.2 million net of royalties). In addition, PetroCumarebo invoiced PDVSA for an additional month of production relating to May 2007 (totalling \$1.4 million net of royalties).

On July 30, 2007, PetroFalcon paid \$150,000 to Colombia's Agencia Nacional de Hidrocarburos ("ANH") to purchase the data package for Caribbean Round 2007, Colombia's first offshore exploration bidding round. The bidding process is scheduled to take place in September 2007.