

PetroFalcon Corporation

Interim Consolidated Financial Statements

(Unaudited)

September 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 nine months ended September 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)

	September 30, 2007	December 31, 2006
	\$	\$
Assets		
Current assets		
Cash	8,196,667	11,894,574
Accounts receivable	11,554,401	13,297,485
Income tax recoverable	2,394,679	1,454,140
	<u>22,145,747</u>	<u>26,646,199</u>
Property and equipment	<u>54,955,399</u>	<u>50,538,243</u>
	<u>77,101,146</u>	<u>77,184,442</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	16,466,049	10,022,193
Income tax payable (note 10)	-	459,654
Short-term debt (note 8)	8,287,985	11,912,791
	<u>24,754,034</u>	<u>22,394,638</u>
Provision for future employee benefits	546,130	546,130
Provision for asset retirement obligation	464,383	431,983
	<u>25,764,547</u>	<u>23,372,751</u>
Shareholders' equity		
Capital stock (note 7)	51,680,606	51,547,584
Warrants (note 7)	-	118,571
Contributed surplus (note 7)	7,795,396	6,025,665
Accumulated deficit	<u>(8,139,403)</u>	<u>(3,880,129)</u>
	<u>51,336,599</u>	<u>53,811,691</u>
	<u>77,101,146</u>	<u>77,184,442</u>
<i>Going Concern (note 1)</i>		

PetroFalcon Corporation

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

(expressed in U.S. dollars)

	Nine months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
Revenue (notes 1 and 2)				
Oil and gas	6,206,972	8,836,479	2,990,095	5,707,450
Royalties	(2,068,784)	(1,902,293)	(1,495,047)	(1,902,293)
Special advantage tax	(1,034,702)	(348,992)	-	(348,992)
	3,103,486	6,585,194	1,495,048	3,456,165
Expenses				
Operating, maintenance and transport	4,039,841	2,975,477	1,394,146	1,834,530
General and administrative	3,965,101	1,834,976	543,479	470,405
Amortization, depletion and accretion	814,498	1,606,833	404,433	1,011,447
Stock-based compensation	1,769,731	1,889,752	256,608	612,603
	10,589,171	8,307,038	2,598,666	3,928,985
Loss before financing income (expenses) and income tax	(7,485,685)	(1,721,844)	(1,103,618)	(472,820)
Financing income (expenses)				
Interest on bank loans	(1,101,368)	(1,718,896)	(363,866)	(430,846)
Interest on bank deposits	220,034	203,874	58,509	94,148
Gain on financing transactions (note 6)	3,176,047	-	1,970,930	-
Gain on foreign exchange	345,276	86,779	114,132	(2,217)
Other income (note 14)	586,422	402,613	586,423	402,613
	3,226,411	(1,025,630)	2,366,128	63,698
Income (loss) before income tax	(4,259,274)	(2,747,474)	1,262,510	(409,122)
Income tax (note 10)	-	(1,158,417)	-	(616,028)
Future income tax	-	(288,027)	-	(288,027)
Net income and comprehensive income (loss)	(4,259,274)	(4,193,918)	1,262,510	(1,313,177)
Retained earnings (accumulated deficit) – Beginning of period	(3,880,129)	2,815,543	(9,401,912)	(65,198)
Retained earnings (accumulated deficit) – End of period	(8,139,403)	(1,378,375)	(8,139,402)	(1,378,375)
Basic and diluted earnings (loss) per share (note 13)	(0.05)	(0.05)	0.01	(0.02)

Going Concern (note 1)

PetroFalcon Corporation

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in U.S. dollars)

	Nine months ended September 30,		Three months ended September 30,	
	2007 \$	2006 \$	2007 \$	2006 \$
Cash provided by (used in)				
Operating activities				
Net income (loss)	(4,259,274)	(4,193,918)	1,262,510	(1,313,178)
Items not affecting cash				
Amortization, depletion and accretion	814,498	1,606,833	404,433	1,011,447
Other	(118,571)	174,102	-	174,102
Foreign exchange	(345,276)	(33,250)	(114,132)	1,146
Stock-based compensation	1,769,731	1,889,752	256,608	612,603
Future income tax	-	288,027	-	288,027
	(2,138,892)	(268,454)	1,809,419	774,147
Net change in non-cash working capital items				
Accounts receivable	1,743,084	1,748,958	1,278,511	(8,123,731)
Accounts payable and accrued liabilities	3,413,107	2,055,412	906,506	4,849,703
Income taxes payable – net	(1,400,193)	(698,471)	(514,448)	(226,946)
	1,617,106	2,837,445	3,479,988	(2,726,827)
Financing activities				
Issuance (repayment) of short-term debt	(3,624,806)	1,697,675	(2,584,496)	1,709,303
Foreign exchange	345,276	-	114,132	-
Proceeds received on exercise of share options and warrants	133,022	117,854	71,860	-
	(3,146,508)	1,815,529	(2,398,504)	1,709,303
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	-	-	-
Acquisition of property and equipment	(10,500,560)	(2,422,625)	(2,658,740)	(650,117)
Movement in non-cash working capital from investing activities	3,030,748	1,563,303	(2,019,088)	1,724,469
	(2,168,505)	(2,875,536)	(4,677,828)	1,074,352
Net (decrease) increase in cash during period	(3,697,907)	1,777,438	(3,596,344)	56,828
Cash – Beginning of period	11,894,574	9,297,444	11,793,011	11,018,054
Cash – End of period	8,196,667	11,074,882	8,196,667	11,074,882
Supplementary information				
Interest paid	1,101,523	1,244,838	369,787	131,441
Income tax paid	1,354,521	898,075	468,776	109,842

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and nine months ended September 30, 2007, and 2006

(expressed in U.S. dollars)

1 Going Concern

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“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 income of \$1.3 million for the three months ended September 30, 2007, and a net loss of \$4.3 million for the nine months ended September 30, 2007. In addition, the Corporation had a working capital deficit of \$2.6 million at September 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, S.A. (“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 its equity interests (see Note 15 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.

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 nine months ended September 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 nine months ended September 30, 2007, were derived from Vinccler Venezuela's proportional share of PetroCumarebo's revenues. However, on a comparative basis, PetroFalcon recognized six months of pre-incorporation operations revenue (April 1 to September 30, 2006) in the comparable three months ended September 30, 2006, due to the fact that the conversion to the Empresa Mixta had not yet been completed in the prior quarter.

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 September 30, 2007, PetroCumarebo has been paid for approximately \$9.5 million of this amount. PetroCumarebo has since delivered invoices to PDVSA for the six months of oil production from January to June 2007 (totalling approximately \$5.6 million net of royalties). Payments for oil production invoices rendered for two months of 2006 and six months of 2007 remain outstanding (see Note 15 regarding subsequent payment).

PetroCumarebo has still not yet invoiced PDVSA for natural gas production delivered since April 2006 (an amount expected to equal approximately \$2.3 million net of royalties as of September 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 and natural gas delivered. 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

PetroFalcon Corporation

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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. These interim consolidated financial statements were prepared in accordance with Canadian GAAP 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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(expressed in U.S. dollars)

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

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 September 30, 2007, Vinccler Venezuela recorded a gain of \$2.0 million as a result of the purchase and sale of US dollar denominated Venezuelan government bonds. During the nine months ended September 30, 2007, Vinccler Venezuela recorded a gain of \$3.2 million as a result of the purchase and sale of US dollar denominated Venezuelan government bonds.

During the comparable periods in 2006, Vinccler Venezuela did not record a gain on financing transactions.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

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(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)	250,000	133,022
As at September 30, 2007	86,581,336	51,680,606

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 nine months ended September 30, 2007, and the year ended December 31, 2006:

	September 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	(250,000)	0.59	(149,700)	1.04
Cancelled	(430,000)	1.95	(265,000)	1.91
Outstanding – End of period	10,796,494	1.81	10,406,494	1.85
Options exercisable – End of period	8,899,988	1.78	7,302,649	1.68

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three and nine months ended September 30, 2007, and 2006

(expressed in U.S. dollars)

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

Exercise Price CDN\$	Outstanding Stock Options		Exercisable Stock Options
	Number	Weighted Average Remaining Contractual Life	Number
\$0.50	100,000	0.30 years	100,000
\$1.00	3,148,654	5.64 years	3,148,654
\$1.00	1,070,000	9.75 years	106,666
\$1.13	75,000	8.88 years	50,000
\$1.23	150,000	9.24 years	-
\$1.30	13,340	6.00 years	13,340
\$1.45	40,000	8.75 years	30,000
\$1.55	450,000	8.44 years	450,000
\$1.93	920,000	8.50 years	920,000
\$2.05	30,000	8.08 years	10,000
\$2.20	290,000	6.50 years	290,000
\$2.35	1,750,000	6.70 years	1,750,000
\$2.38	300,000	8.00 years	100,000
\$2.39	1,459,500	7.70 years	1,264,662
\$3.28	1,000,000	7.18 years	666,666
	<u>10,796,494</u>		<u>8,899,988</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 received 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 these warrants. The warrants expired unexercised as of June 30, 2007.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

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(expressed in U.S. dollars)

8 Short-term debt

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

	September 30, 2007	December 31, 2006
Due to Venezolana de Inversiones y Construcciones Clérico, C.A. (Vinccler C.A.) with no specific terms of repayment, unsecured and non-interest bearing (see Note 9)	350,000	350,000
Unsecured bank loans bearing interest at 15%, 90 days revolving basis, payable in Bolivars	7,937,985	11,562,791
	<u>\$8,287,985</u>	<u>\$11,912,791</u>

Short-term bank loans consisted of Vinccler Venezuela's credit line with a Venezuelan bank to meet its short-term working capital needs. 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 September 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 September 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 nine months ended September 30, 2007, the Corporation paid to Pacific Oil and Gas, LLC \$405,000, compared to \$630,000 for the nine months ended September 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 September 30, 2007, and 2006, PetroFalcon did not receive services from Vinccler C.A. During the nine months ended September 30, 2007, PetroFalcon did not receive services from Vinccler C.A., compared to \$11,669 during the nine months ended September 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 September 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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(expressed in U.S. dollars)

10 Income Tax

During the nine months ended September 30, 2007, the Corporation did not record a current income tax expense, compared to \$1.2 million during the nine months ended September 30, 2006.

11 Financial instruments

The Corporation is exposed to fluctuations in commodity prices, interest rates and Canadian/U.S. dollar 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 nine months ended September 30, 2007, the Corporation did not hold or issue any derivative financial instruments. The Corporation's financial assets and liabilities as at September 30, 2007, included cash, accounts receivable and accounts payable. Fair values approximate carrying values unless otherwise stated. Additionally, the Corporation's financial instruments include short-term debt that bears interest at market-related rates, which approximates fair value.

12 Commitments and contingencies

At September 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 five years with payments of \$85,700 per month.

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13 Earnings (loss) per share

	Nine months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
Net income (loss)	(\$4,259,274)	(\$4,193,918)	\$1,262,510	(\$1,313,177)
Weighted average number of common shares	86,456,336	79,901,083	86,456,336	82,160,758
Stock options and warrants*	100,000	3,896,994	100,000	3,723,654
Basic (loss) earnings per share	(\$0.05)	(\$0.05)	\$0.01	(\$0.02)
Diluted (loss) earnings per share*	(\$0.05)	(\$0.05)	\$0.01	(\$0.02)

* The calculation of diluted earnings per common share excludes 10,696,494 options outstanding during the three and nine months ended September 30, 2007, and 6,459,500 options and warrants outstanding during the three and nine months ended September 30, 2006, as these would have been anti-dilutive to the calculation.

14 Other income

During the three months ended September 30, 2007, the Corporation revised its estimated income tax payable of \$459,654 related to PetroFalcon's accrual for the fiscal year ended December 31, 2006. In addition, the Corporation collected \$105,000 corresponding to drilling insurance claims.

15 Subsequent Events

The Corporation announced on July 18, 2007, the proposed acquisition of 100% of the issued and outstanding shares of Lundin Latina de Petroleos, S.A. ("Lundin Venezuela"), as well as a private placement with Lundin Petroleum BV ("Lundin BV"), a wholly-owned subsidiary of Lundin Petroleum. On August 22, 2007, the Corporation and Lundin BV entered into a binding share purchase agreement to effect the transactions. On October 18, 2007, the Corporation announced obtaining written consents approving the transactions from shareholders representing at least 50% plus one of the issued and outstanding common shares of PetroFalcon, as well as the conditional approval of the Toronto Stock Exchange ("TSX"). The closing of the transactions remains contingent upon receiving the formal approval of MEP.

Lundin Petroleum is an independent oil and gas exploration and production company with a well balanced portfolio of world-class assets in Europe, Africa, Russia and the Far East. Lundin Petroleum is listed on the Nordic Exchange in Sweden and has existing proven and probable

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reserves of 176 mmbob as of January 1, 2007. Lundin Petroleum has an established track record of success in the international oil and gas business and upon completion of the transactions will hold, through Lundin BV, 40% of the shares of the Corporation on a fully diluted basis.

Lundin BV is a holding company incorporated in the Netherlands and is a direct, wholly-owned subsidiary of Lundin Petroleum. Lundin BV holds directly or indirectly all of the operating assets of Lundin Petroleum, including Lundin Venezuela.

Lundin Venezuela is a holding company incorporated in Venezuela. Lundin Venezuela owns 5% of Baripetrol, S.A. ("Baripetrol"), a joint venture between PDVSA, Tecpetrol de Venezuela, S.A. and Perenco Oil and Gas International Limited. Lundin Venezuela has no employees or contracts outside of its equity holding in Baripetrol. Baripetrol operates the Colon Block, which includes approximately 297,000 acres in western Venezuela and has current onshore production of oil and natural gas.

PetroFalcon will acquire 100% of the issued and outstanding shares of Lundin Venezuela from Lundin BV in consideration for the issuance of 57,254,505 common shares of the Corporation at a price of CDN\$0.80 per share, a 33% premium to PetroFalcon's closing price per share of CDN \$0.60 on July 17, 2007 (the day before the transactions were announced).

As of June 30, 2007, Lundin Venezuela had approximately \$600,000 in cash and \$21.4 million in accounts receivable from Lundin Petroleum. The accounts receivable will be paid by Lundin BV to PetroFalcon at closing.

Concurrent with the completion of the acquisition, Lundin BV will subscribe for 6,665,995 units of the Corporation at a purchase price of CDN\$0.80 for aggregate proceeds of approximately \$5.1 million. Each unit shall consist of one common share and approximately 0.75 warrants, such that an aggregate of 5,000,000 warrants will be issued. Each whole warrant will be exercisable for one common share of the Corporation upon payment of CDN\$1.20 per share on or before 24 months from the date of grant. The proceeds of the private placement will be used by PetroFalcon to fund capital expenditure commitments and business development activities.

In connection with the transactions, the Corporation will pay a cash finder's fee in the amount of \$543,600 and issue 569,284 common shares of the Corporation to Nanes Delorme Capital Management, LLC, a boutique investment bank in New York City that is arm's length to the Corporation.

Effective October 30, 2007, PetroFalcon Corporation and its wholly-owned Canadian subsidiary, Vinccler Oil and Gas Corporation, were amalgamated and continued as the newly amalgamated company, PetroFalcon Corporation.

Subsequent to September 30, 2007, PDVSA paid PetroCumarebo for all outstanding oil production invoices through May 2007 (totalling \$7.3 million net of royalties).