



Building Value in Venezuela

MANAGEMENT DISCUSSION & ANALYSIS

THIRD QUARTER 2007

The following management discussion and analysis (“MD&A”) is prepared as of November 9, 2007. This MD&A, as provided by the management of PetroFalcon Corporation (“PetroFalcon” or the “Corporation”), should be read in conjunction with the Corporation’s interim consolidated financial statements for the three and nine months ended September 30, 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 Corporation’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 fixed exchange rate (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 Corporation; and other factors, many of which are beyond our control. All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The foregoing factors are not exhaustive and are further discussed in PetroFalcon's most recent annual information form available on SEDAR at www.sedar.com. Actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits will be derived there from. Investors should not place undue reliance on forward-looking information. Statements relating to "reserves" or "resources" are also deemed to be forward-looking information as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future. Except as required by law, PetroFalcon Corporation and its subsidiaries expressly disclaim any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise. In the event subsequent events prove past statements about current trends to be materially different, we may choose to issue a news release explaining the reasons for the difference and update the guidance on the anticipated impact on revenue, earnings and other key events.

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

CURRENT STATUS OF PETROFALCON

PetroFalcon Corporation is engaged in the exploration, development, production and management of oil and natural gas properties through its 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”). Effective October 30, 2007, PetroFalcon and its wholly-owned Canadian subsidiary, Vinccler Oil and Gas Corporation, were amalgamated and continued as the newly amalgamated company, PetroFalcon Corporation.

Empresa Mixta Background

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. 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 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 totaling approximately \$12.3 million net of royalties). PetroCumarebo subsequently delivered invoices to PDVSA for the six months of oil production from January to June 2007 (totaling approximately \$5.6 million net of royalties). As of November 9, 2007, PetroCumarebo has been paid by PDVSA for all oil production delivered through May 2007. Payment for the oil production invoice rendered for June 2007 remains outstanding.

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 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.

ICO Pipeline Update

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 between the La Vela and Cumarebo valve stations, and PDVSA closed the pipeline section leading to PetroCumarebo’s East Falcon Block. As a result, approximately half of PetroCumarebo’s natural gas production is temporarily shut-in, but its wells and facilities are unaffected. In August 2007, PetroCumarebo began delivering natural gas from the La Vela Field into the ICO pipeline. Management has been advised that deliveries from the Cumarebo Field are expected to begin by the end of 2007.

As a result of the ICO pipeline repairs, PetroCumarebo now has approximately 12 million cubic feet of natural gas per day (“mmcf/d”) and 150 barrels of oil per day (“bbls/d”), or 2,150 barrels of oil equivalent per day (“boe/d”), shut-in from the East Falcon Block, 40% net to PetroFalcon being approximately 5 mmcf/d and 60 bbls/d, or 860 boe/d.

New Business Update

Chevron

As previously disclosed, subject to the approval of MEP, PetroFalcon is acquiring a 30% interest from Chevron Corporation (“Chevron”) in the offshore natural gas license for the Cardon III Block (“Cardon III”) in the Gulf of Venezuela. The Corporation anticipates that the transaction will be completed in the fourth quarter of 2007.

Chevron completed 3-D seismic data acquisition on Cardon III in April 2007, and the data is currently being processed. Following the evaluation of the seismic data later this year, Chevron and Vinccler Venezuela will decide whether to proceed with an exploration well in 2009. If successful, first commercial production of natural gas from Cardon III is expected in 2011.

Lundin Petroleum

The Corporation previously 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. The Corporation anticipates that the transactions will be completed in the fourth quarter of 2007.

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 reserves of 176 mmmboe 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, Tectropetrol 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.

In summary, PetroFalcon will issue approximately 64 million shares to Lundin Petroleum with 5 million warrants, and PetroFalcon will receive a 5% interest in Baripetrol and approximately \$27 million in cash from the acquisition and private placement. Lundin Petroleum will own approximately 40% of the Corporation after closing and will nominate two representatives to join the Board of Directors of PetroFalcon.

Management expects the transactions to significantly increase oil production and the expected annual cash flow of the Corporation. Management has been advised by Lundin Venezuela that Baripetrol recently paid a \$2 million dividend to Lundin Venezuela for the fiscal year 2006. Management expects a similar dividend from Baripetrol for 2007.

PRODUCTION AND REVENUE

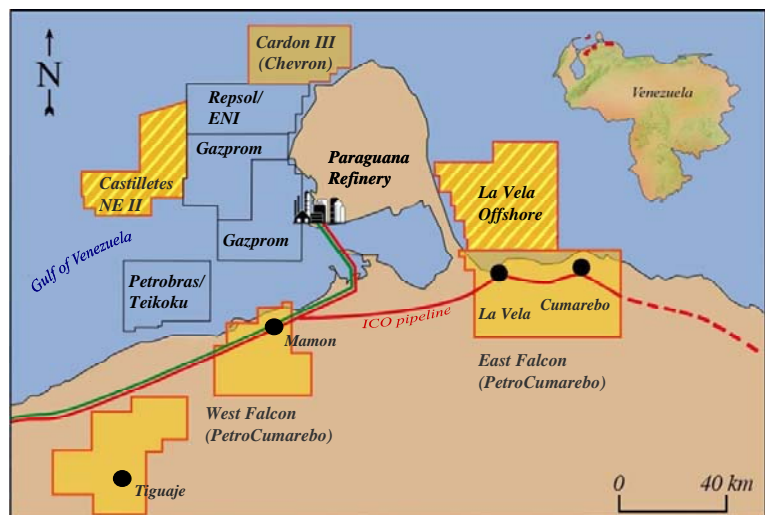
PETROCUMAREBO

For the three months ended September 30, 2007, PetroCumarebo's average gross production from both the East Falcon and West Falcon blocks was 1,700 boe/d. PetroFalcon's 40% share before royalties was 680 boe/d. For the comparable period ended September 30, 2006, PetroCumarebo's average production was 2,194 boe/d, PetroFalcon's 40% share before royalties being 878 boe/d. The decrease in production in the most recent period is mainly due to the ICO pipeline closure on December 6, 2006.

Oil and gas production is expected to increase during the fourth quarter of 2007 from development drilling in the La Vela and Cumarebo fields, an aggressive workover campaign in both the East Falcon and West Falcon blocks, the completion of repairs to the ICO pipeline and the completion of new production facilities at La Vela and Cumarebo.

East Falcon Block

For the three months ended September 30, 2007, PetroCumarebo's average gross production from East Falcon was 1,080 boe/d. PetroFalcon's 40% share before royalties was 432 boe/d. For the comparable period ended September 30, 2006, PetroCumarebo's average production in East Falcon was 1,823 boe/d, PetroFalcon's 40% share before royalties being 729 boe/d. The large decrease in production is mostly due to the ICO pipeline closure and subsequent shut-in of natural gas deliveries.



At September 30, 2007, the East Falcon Block had 13 producing oil wells, 2 shut-in oil wells, 2 producing natural gas wells used for gas lift at the Cumarebo Field and 5 producing natural gas wells at the La Vela Field and 2 shut-in natural gas wells at the Cumarebo Field (waiting on the ICO pipeline repair).

West Falcon Block

For the three months ended September 30, 2007, PetroCumarebo's average gross production from the West Falcon Block was 620 boe/d. PetroFalcon's 40% share before royalties was 248 boe/d. For the comparable period ended September 30, 2006, PetroCumarebo's average production in West Falcon was 371 boe/d, PetroFalcon's 40% share before royalties being 149 boe/d.

At September 30, 2007, the West Falcon Block had 10 producing oil wells, 6 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 Sept 30, 2007	Three months ended Sept 30, 2007	Three months ended Sept 30, 2006
Daily production/sales			
Oil - bbls/d	1,047	419	429
Natural gas - mcf/d	3,918	1,567	2,691
Total – boe/d	1,700	680	878
Product pricing (\$)			
Oil - per bbl	71.14	71.14	67.76
Natural gas – per mcf	1.56	1.56	1.50
Revenue per boe	47.41	47.41	37.74
Total Revenues (\$000s)	7,475	2,990	NA

Note: Production is shown before royalties. PetroFalcon, through Vinccler Venezuela, owns 40% of PetroCumarebo. The decrease in production in the most recent period is mainly due to the ICO pipeline closure on December 6, 2006. PetroFalcon was not able to recognize revenue in the three months ended June 30, 2006, due to the fact that the Empresa Mixta conversion had not yet been completed. This revenue was later recognized in the three months ended September 30, 2006. Therefore, the comparable period in 2006 includes six months of revenue and is listed as "NA" above.

PetroCumarebo's gross revenues from the East Falcon Block and West Falcon Block for the three months ended September 30, 2007, were \$7.5 million. PetroFalcon's 40% share before royalties was \$3.0 million.

The average price realized by PetroCumarebo for the three months ended September 30, 2007, was \$71.14 per barrel of oil and \$1.56 per mcf of natural gas. The combined average price for the three months ended September 30, 2007, was \$47.41 per boe. For the three months ended September 30, 2006, the average price realized by PetroFalcon was \$67.76 per barrel of oil and \$1.50 per mcf of natural gas, a combined average of \$37.74 per boe.

Oil and natural gas production is delivered to PDVSA, and it is expected that PetroCumarebo will receive payment for its deliveries as outlined in the Conversion Contract (see “PetroCumarebo Payments” above). 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. These formulas equate on average to a price that is approximately 103% of WTI for East Falcon oil and 85% of WTI for West Falcon oil. PetroCumarebo produces light sweet crude oil that sells at a premium to most of the oil produced in Venezuela.

Payment from PDVSA to PetroCumarebo is 100% in US Dollars for crude oil and will be 100% in Bolivars for natural gas. The contractual price for natural gas is pegged to a US Dollar amount of \$1.56 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.

ROYALTIES

PetroCumarebo’s oil and gas production is subject to royalties calculated as 33.3% of gross revenues. PetroFalcon’s share of royalties during the three months ended September 30, 2007, was \$1.5 million. The Corporation’s share of royalties during the nine months ended September 30, 2007, was \$2.0 million.

Following MEP instructions, PetroCumarebo invoices PDVSA for production delivered net of royalties. The royalty amount recorded is the value of the royalty paid in kind to the Venezuelan government by PetroCumarebo. The Corporation’s oil and gas production was not subject to royalties under the OSAs prior to April 2006.

Under the terms of the Conversion Contract, PetroCumarebo is also 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 September 30, 2007, PetroFalcon did not record any special advantage tax due. In the nine months ended September 30, 2007, this amount equalled \$1.0 million for PetroFalcon. The Corporation was not subject to the special advantage tax prior to April 2006.

OPERATING EXPENSES

(\$000s except boe amount)	Three months ended September 30, 2007	Three months ended September 30, 2006
Operating Expenses (including maintenance and transportation)	1,394	1,835
Average expense (\$ per boe)	22.29	13.61

(\$000s except boe amount)	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Operating Expenses (including maintenance and transportation)	4,040	2,975
Average expense (\$ per boe)	34.20	12.34

Note: The per boe metrics were calculated using 62,543 boe net to PetroFalcon before royalties for the three months ended September 30, 2007, and 118,122 boe for the nine months ended September 30, 2007. The decrease in production in the most recent period is mainly due to the ICO pipeline closure on December 6, 2006. PetroFalcon was not able to recognize expenses from PetroCumarebo in the three months ended June 30, 2006, due to the fact that the Empresa Mixta conversion had not yet been completed. These expenses were later recognized in the three months ended September 30, 2006. Therefore, the third quarter of 2006 includes six months of expenses and is not comparable. Furthermore, the nine month period in 2006 includes three months prior to April 2006 under the East Falcon OSA and is not comparable.

Please see “Current Status of Operations of PetroFalcon”.

PetroFalcon’s operating expenses during the three months ended September 30, 2007, were \$1,394,146 (40% of PetroCumarebo plus other operating expenses outside of PetroCumarebo). Operating expenses for the three months ended September 30, 2006, were \$1,834,530. PetroFalcon’s operating expenses during the nine months ended September 30, 2007, were \$4,039,841. Operating expenses for the nine months ended September 30, 2006, were \$2,975,477.

GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSE

(\$000s except boe amount)	Three months ended September 30, 2007	Three months ended September 30, 2006
Expenses	543	470
Average expense (\$ per boe)	8.69	3.49

(\$000s except boe amount)	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Expenses	3,965	1,835
Average expense (\$ per boe)	33.57	7.61

Note: The per boe metrics were calculated using 62,543 boe net to PetroFalcon before royalties for the three months ended September 30, 2007, and 118,122 boe for the nine months ended September 30, 2007. The decrease in production in the most recent period is mainly due to the ICO pipeline closure on December 6, 2006. PetroFalcon was not able to recognize expenses from PetroCumarebo in the three months ended June 30, 2006, due to the fact that the Empresa Mixta conversion had not yet been completed. These expenses were later recognized in the three months ended September 30, 2006. Therefore, the third quarter of 2006 includes six months of expenses and is not comparable. Furthermore, the nine month period in 2006 includes three months prior to April 2006 under the East Falcon OSA and is not comparable.

Please see “Current Status of Operations of PetroFalcon”.

PetroFalcon’s general and administrative expenses were \$543,479 during the three months ended September 30, 2007, as compared to \$470,405 during the three months ended September 30, 2006. PetroFalcon’s G&A expenses were \$3,965,101 during the nine months ended September 30, 2007, as compared to \$1,834,976 during the nine months ended September 30, 2006.

The increase in G&A expense is mainly due to PetroFalcon recognizing the full cost of consultants and employees either seconded to PetroCumarebo or under the technical service agreement between Vinccler Venezuela and PetroFalcon. Under the terms of the Conversion Contract, the technical service agreement was transferred from Vinccler Venezuela to PetroCumarebo on April 1, 2006. PetroCumarebo paid PetroFalcon for technical service invoices in April, May and September 2006, but Management is currently renegotiating the terms of this contract and may not be able to collect from PetroCumarebo on subsequent amounts.

PetroFalcon does not capitalize general and administrative expenses.

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

(\$000s except boe amount)	Three months ended September 30, 2007	Three months ended September 30, 2006
Amortization, Depletion and Accretion	404	1,011
Depletion Rate (\$ per boe)	6.47	7.50

(\$000s except boe amount)	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Amortization, Depletion and Accretion	814	1,607
Depletion Rate (\$ per boe)	6.90	6.66

Note: The per boe metrics were calculated using 62,543 boe net to PetroFalcon before royalties for the three months ended September 30, 2007, and 118,122 boe for the nine months ended September 30, 2007. The decrease in production in the most recent period is mainly due to the ICO pipeline closure on December 6, 2006. PetroFalcon was not able to recognize expenses from PetroCumarebo in the three months ended June 30, 2006, due to the fact that the Empresa Mixta conversion had not yet been completed. These expenses were later recognized in the three months ended September 30, 2006. Therefore, the third quarter of 2006 includes six months of expenses and is not comparable. Furthermore, the nine month period in 2006 includes three months prior to April 2006 under the East Falcon OSA and is not comparable.

Please see “Current Status of Operations of PetroFalcon”.

For the three months ended September 30, 2007, PetroFalcon’s AD&A was \$404,433 compared to AD&A of \$1,011,447 for the three months ended September 30, 2006. For the nine months ended September 30, 2007, PetroFalcon’s AD&A was \$814,498 compared to AD&A of \$1,606,833 for the nine months ended September 30, 2006.

INTEREST INCOME AND EXPENSE

At September 30, 2007, PetroFalcon had \$8.2 million in cash and short-term deposits compared to \$11.9 million at September 30, 2006. During the three months ended September 30, 2007, the Corporation recorded interest income in the amount of \$58,509 as compared to \$94,148 during the three months ended September 30, 2006. During the nine months ended September 30, 2007, the Corporation recorded interest income in the amount of \$220,034 as compared to \$203,874 during the nine months ended September 30, 2006.

PetroFalcon incurred interest expense of \$363,866 during the three months ended September 30, 2007, as compared to \$430,846 during the three months ended September 30, 2006. During the nine months ended September 30, 2007, the Corporation recorded interest expense in the amount of \$1,101,368 as compared to \$1,718,896 during the nine months ended September 30, 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”).

STOCK-BASED COMPENSATION

During the three months ended September 30, 2007, the Corporation recorded \$256,608 in stock-based compensation expense as compared to \$612,603 during the three months ended September 30, 2006. During the nine months ended September 30, 2007, the Corporation recorded \$1,769,731 in stock-based compensation expense as compared to \$1,889,752 during the nine months ended September 30, 2006. The higher stock-based compensation expense was due to a greater number of stock options vesting during the periods.

INCOME TAXES

During the three month period ended September 30, 2007, PetroFalcon recorded no income tax expense, compared to \$616,028 during the three months ended September 30, 2006. During the nine months ended September 30, 2007, PetroFalcon recorded no income tax expense, compared to \$1,158,417 in the nine months ended September 30, 2006.

2007 CAPITAL BUDGET

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%.

If the Lundin Petroleum financing (see “Lundin Petroleum” in “New Business Update” above) is not successful, additional financing will be needed to meet these budget requirements in 2007. 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 Cardon III, which could result in interest charges or a dilution of Vinccler Venezuela’s equity interests.

PETROCUMAREBO BUDGET

(\$000s)	PetroCumarebo 2007 Revised Budget	PetroFalcon 40% Share	Incurred As of Sept 30,'07 (Gross)	Incurred As of Sept 30,'07 (Net)
Drilling				
- La Vela	18,900	7,560	17,300	6,920
- Cumarebo	3,200	1,280	-	-
- West Falcon	-	-	-	-
- Total Drilling	22,100	8,840	17,300	6,920
Processing Facilities and Infrastructure				
- La Vela	4,400	1,760	3,300	1,320
- Cumarebo	2,800	1,120	2,100	840
- West Falcon	700	280	-	-
- Total Processing Facilities	7,900	3,160	5,400	2,160
Total Capital Budget	30,000	12,000	22,700	9,080

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

During the third quarter of 2007, PetroCumarebo continued drilling with the Pride 421 900 HP rig. Since beginning drilling operations in November 2006, PetroCumarebo has drilled eleven wells, completed eight, produced five and will complete one more well (LV-21) shortly. Results for wells LV-11 (the first well drilled in La Vela) through LV-17 have already been announced in detail.

As of November 9, PetroCumarebo is drilling the last 2007 well in the La Vela Field, LV-21, through the entire stratigraphic column down to 8,500 feet. Afterwards, the rig will move to the LV-7X location in the La Vela Field in order to perform a workover. The rig will then move to the Cumarebo Field and drill three wells on existing locations, possibly extending the limits of a proven gas/condensate reservoir in the northeast portion of the Cumarebo Field. Finally, in 2008, the exploratory well in the San Patricio area of the East Falcon Block will be drilled in order to target potential new oil and gas reserves.

LV-18 well

The LV-18 well was initially drilled vertically to 1,488 feet, with lost circulation and borehole swelling problems. The well was suspended after 7" casing was set at 1,480 feet. Operations resumed, and after reaching a total depth of 3,660 feet, the well was logged, showing prospective intervals in the Middle Socorro and Upper Caujarao formations. The well was successfully perforated in October 2007 in the Middle Socorro formation and is producing 1.7 mmcf/d with a well-head flowing pressure of 1,000 pounds per square inch gauge ("psig") on a 30/64" choke. Production is delivered to the ICO pipeline through the La Vela valve station.

LV-19 and LV-20 wells

PetroCumarebo expects the LV-19 and LV-20 wells to be perforated and tested by the end of November 2007. Oil in the lower Caujarao formation is expected from LV-19 (similar to LV-14), and gas is expected in the base of the Socorro formation from LV-20. If hydrocarbons are encountered in these prospective sands in the base of Socorro formation, this will confirm a new reservoir in the La Vela south field.

LV-21 well

The LV-21 is a deep well (8,500 feet) to test the prospectivity of the Cerro Pelado and Pedregoso formations in the eastern part of the La Vela south anticline. These formations were previously evaluated with the LV-6X and LV-10 wells in the southern and western flanks of the La Vela south anticline. The well is currently being drilled as a J-type deviated well in a north-northwest direction from the same platform where LV-20 was drilled. According to logs run while drilling, the well encountered the Cerro Pelado formation at 5,055 feet, finding at least 25 feet of hydrocarbon bearing sands. These same sands have been on production from the nearby LV-6X well. The Pedregoso formation was found at 6,360 feet with 15 feet of gas bearing sands at the top of the formation, equivalent to those that tested gas in LV-6X. The oil bearing sands found in LV-6X and LV-10 are expected between 7,300 and 7,800 feet. As of November 9, the well is at 7,200 feet, where 7" casing will be set.

PETROCUMAREBO PRODUCTION UPDATE

The current gross production of PetroCumarebo is approximately 1,200 bbls/d of oil and 10 mmcf/d of natural gas, or 2,865 boe/d, with an additional 150 bbls/d and 12 mmcf/d, or 2,150 boe/d, shut-in due to PDVSA's ICO pipeline closure. Depending on the results of PetroCumarebo's drilling program and the timing of repairs to the ICO pipeline in Cumarebo, PetroCumarebo's 2007 revised budget of US\$30 million is estimated to significantly increase production for the East Falcon and West Falcon blocks to approximately 2,000 bbls/d and 24 mmcf/d, or 6,000 boe/d (40% net to PetroFalcon being 800 bbls/d and 10 mmcf/d, or 2,400 boe/d).

CARDON III BUDGET

(\$000s)	Gross Cost	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)	6,600	1,980
Total Cost to Drilling Decision	14,000	4,200

On January 24, 2007, Vinccler Venezuela signed a Heads of Terms agreement for the acquisition of 30% of the natural gas license for the Cardon III Block from Chevron. The acquisition is subject to the receipt of MEP approval within 12 months of the effective date of January 1, 2007. The total cost from bid bonus to a drilling decision on the Cardon III Block is estimated to be \$4.2 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 without interest if MEP approval is denied. If MEP approval is received, Vinccler Venezuela will have 30 working days to pay 30% of the Cardon III costs after the effective date, which will be approximately \$2.0 million net to PetroFalcon.

Chevron completed 3-D seismic data acquisition for Cardon III on April 14, 2007. Following the evaluation of the data later this year, Chevron and Vinccler Venezuela will decide whether to proceed with an exploration well in 2009, at an additional estimated cost of \$9 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 September 30, 2007	Three months ended September 30, 2006
Cash flow from operations*	1,809	774
Per basic share	0.02	0.01
Net (loss) income	1,263	(1,313)
Per basic share	0.01	(0.02)
Working capital	(2,608)	6,489

* This is a non-GAAP measure of profitability

(\$000s except per share data)	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Cash flow from operations*	(2,139)	(268)
Per basic share	(0.02)	(0.00)
Net (loss) income	(4,259)	(4,194)
Per basic share	(0.05)	(0.05)

* This is a non-GAAP measure of profitability

OPERATING NETBACK

(\$ per boe)	Three months ended September 30, 2007	Three months ended September 30, 2006
Sales price	47.41	37.74
Operating expenses	(22.29)	(13.61)
Operating netback*	25.12	24.13

* This is a non-GAAP measure of profitability

(\$ per boe)	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Sales price	51.76	30.98
Operating expenses	(34.20)	(12.34)
Operating netback*	17.56	18.64

* This is a non-GAAP measure of profitability

LIQUIDITY AND CAPITAL RESOURCES

As of November 9, 2007, PetroFalcon had 86,581,336 issued and outstanding common shares and 97,377,830 common shares on a fully diluted basis.

As of September 30, 2007, PetroFalcon had 86,581,336 issued and outstanding common shares and 97,377,830 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 September 30, 2007, PetroFalcon had \$8.2 million in cash and short-term deposits and a working capital deficit of \$2.6 million. As of September 30, 2007, PetroFalcon's total short-term debt was \$8.3 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 September 30, 2007, PetroFalcon had \$11.6 million in accounts receivable compared to \$13.3 million at December 31, 2006 (see "PetroCumarebo Payments" above). As of September 30, 2007, the Corporation had \$16.5 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 and the nine months ended September 30, 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 (see “Lundin Petroleum” under “New Business Update” above). The Corporation 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 and nine months ended September 30, 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		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	3,256	3,129	NA	5,707	2,315	1,292	1,925	2,990
Net income (loss)	(1,128)	(1,181)	(1,700)	(1,313)	(2,502)	(2,445)	(3,077)	1,263
Earnings (loss) per share basic and diluted	(0.01)	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)	(0.04)	0.01

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

RELATED PARTY TRANSACTIONS

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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the three months ended September 30, 2007, there were no changes to internal controls over financial reporting that have materially affected, or are reasonably like to materially affect, the Corporation's internal controls over financial reporting.

ADDITIONAL INFORMATION

Additional information regarding the Corporation, including its annual information form, reserves information and annual report, may be found on the SEDAR website at www.sedar.com or by visiting the Corporation's website at www.petrofalcon.com.