

PetroFalcon Corporation

Interim Consolidated Financial Statements

(Unaudited)

March 31, 2009 and 2008

(expressed in U.S. dollars)

The accompanying unaudited interim consolidated financial statements of PetroFalcon Corporation (the “Company”) for the three months ended March 31, 2009, and 2008, have been prepared by Management and approved by the Audit Committee of the Company.

PetroFalcon Corporation
Interim Consolidated Balance Sheets
(Unaudited)

(expressed in U.S. dollars)

	March 31, 2009	December 31, 2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	31,217,908	26,667,337
Accounts receivable (note 6)	849,229	6,972,123
Income tax recoverable	124,360	151,699
	<hr/>	<hr/>
	32,191,497	33,791,159
Investments in oil and gas companies (note 5)	54,046,990	54,046,990
Property and equipment	563,270	565,926
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	86,801,757	88,404,075
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	844,199	919,415
Shareholders' equity		
Share capital (note 7)	107,556,978	107,556,978
Warrants (note 7)	1,867,386	1,867,386
Contributed surplus (note 7)	8,743,174	8,717,778
Accumulated deficit	(32,209,980)	(30,657,482)
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	85,957,558	87,484,660
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	86,801,757	88,404,075

The notes to consolidated financial statements are an integral part of these statements.

PetroFalcon Corporation

Interim Consolidated Statements of Operations, Comprehensive Operations and Accumulated Deficit

(Unaudited)

(expressed in U.S. dollars)

	Three months ended	
	March 31,	
	2009	2008
	\$	\$
Expenses		
General and administrative	1,509,398	1,630,939
Depreciation, depletion and amortization	58,199	25,412
Stock-based compensation (note 8)	25,396	728,757
	<u>1,592,993</u>	<u>2,385,108</u>
Loss before financing income and income tax	<u>(1,592,993)</u>	<u>(2,385,108)</u>
Financing income		
Interest income (expense)	136,076	(107,687)
Foreign exchange gain (loss)	(95,581)	256,408
Other income	-	560,894
	<u>40,495</u>	<u>709,615</u>
Net loss and comprehensive loss	<u>(1,552,498)</u>	<u>(1,675,493)</u>
Accumulated deficit – Beginning of period	<u>(30,657,482)</u>	<u>(7,467,425)</u>
Accumulated deficit – End of period	<u>(32,209,980)</u>	<u>(9,142,918)</u>
Weighted average number of common shares outstanding	158,501,120	118,813,728
Basic and diluted loss per share (note 11)	(0.01)	(0.01)

The notes to consolidated financial statements are an integral part of these statements.

PetroFalcon Corporation

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in U.S. dollars)

	Three months ended	
	March 31,	
	2009	2008
	\$	\$
Cash provided by (used in) operating activities		
Net loss	(1,552,498)	(1,675,493)
Items not affecting cash		
Depreciation, depletion and amortization	58,199	25,412
Bad debt expense	18,270	-
Stock-based compensation	25,396	728,757
	<u>(1,450,633)</u>	<u>(921,324)</u>
Net change in non-cash working capital items		
Accounts receivable	6,104,624	(663,373)
Accounts payable and accrued liabilities	(75,217)	264,896
Income taxes recoverable	27,339	(107,760)
	<u>4,606,113</u>	<u>(1,427,561)</u>
Financing activities		
Repayment of short-term debt	-	(408,469)
Private placement	-	5,110,000
	<u>-</u>	<u>4,701,531</u>
Investing activities		
Baripetrol pre-acquisition dividends	-	1,910,000
Acquisition of Lundin Latina de Petróleos, S.A.	-	21,202,990
Acquisition of property and equipment	(55,542)	(10,687)
	<u>(55,542)</u>	<u>21,102,303</u>
Net increase in cash during period	<u>4,550,571</u>	<u>26,376,273</u>
Cash – Beginning of period	<u>26,667,337</u>	<u>4,773,930</u>
Cash – End of period	<u>31,217,908</u>	<u>31,150,203</u>
Supplementary information		
Interest paid	-	217,794
Income taxes paid	-	-

The notes to consolidated financial statements are an integral part of these statements.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three months ended March 31, 2009 and 2008

(expressed in U.S. dollars)

1 Description of business

PetroFalcon Corporation (“PetroFalcon” or the “Company”) is engaged in the exploration, development, production and management of oil and natural gas properties. Through its wholly-owned Venezuelan subsidiary, Vinccler Oil and Gas, C.A. (“Vinccler Venezuela”), PetroFalcon owns 40% of PetroCumarebo, S.A. (“PetroCumarebo”) and 5% of Baripetrol, S.A. (“Baripetrol”).

2 Summary of significant accounting policies

These unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). These unaudited interim consolidated financial statements do not contain all of the disclosures required by Canadian generally accepted accounting principles and therefore should be read together with the most recent audited annual consolidated financial statements and the accompanying notes.

The preparation of these unaudited interim consolidated financial statements is based on the accounting policies and practices consistent with those used in the preparation of the Company’s annual consolidated financial statements as at December 31, 2008, and for the year then ended except for certain new accounting pronouncements that have been adopted effective January 1, 2009, as described in Note 3.

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary.

3 Change in accounting policy

The Canadian Institute of Chartered Accountants (“CICA”) has issued the following new standards that may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. The Company adopted the requirements commencing in the quarter ended March 31, 2009, and has concluded that the new standards do not have an impact on the Company’s financial statements.

Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. The Company concluded that the adoption of this standard does not have an impact on the financial statements.

Section 1582, replaces the former CICA 1581, Business Combinations and is effective for business combinations for which the acquisition date is on/after the beginning of the first annual reporting period beginning on/after January 1, 2011. The Company concluded that the adoption of this standard does not have an impact on the financial statements.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three months ended March 31, 2009 and 2008

(expressed in U.S. dollars)

4 Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	March 31, 2009	December 31, 2008
	\$	\$
Cash in Canadian banks	31,045,777	25,972,887
Cash in foreign banks	172,131	694,450
	<u>31,217,908</u>	<u>26,667,337</u>

The Company's cash and cash equivalents are on deposit with highly-rated banks in Canada, Curacao and Venezuela. Short-term deposits in US dollars were at variable annual interest rates from 1.10% to 1.15% during the three month period ended in March 2009, and from 1.45% to 2.20% during the three month period ended in December 2008.

5 Investments in oil and gas companies

The Company's investments consisted of the following:

	March 31, 2009	December 31, 2008
	\$	\$
PetroCumarebo	40,649,650	40,649,650
Baripetrol	13,397,340	13,397,340
	<u>54,046,990</u>	<u>54,046,990</u>

PetroCumarebo

Effective April 1, 2006, Vinccler Venezuela's Operating Service Agreements ("OSA") for the East and West Falcon blocks became a 40% investment in the mixed company, PetroCumarebo.

In 2007, PetroFalcon re-evaluated its relationship with PetroCumarebo and concluded that, for accounting purposes, effective January 1, 2007, PetroFalcon's investment in PetroCumarebo does not currently meet the criteria for proportionate consolidation or equity method accounting. Accordingly, PetroFalcon has accounted for PetroCumarebo using the cost method of accounting for the three month period ended March 31, 2009, and December 31, 2008.

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Notes to Interim Consolidated Financial Statements

(Unaudited) For the three months ended March 31, 2009 and 2008

(expressed in U.S. dollars)

Baripetrol

On February 1, 2008, PetroFalcon acquired 100% of the issued and outstanding shares of Lundin Latina de Petróleos, S.A. (“Lundin Venezuela”) from Lundin Petroleum BV (“Lundin BV”) in consideration for the issuance of 57,254,505 common shares of the Company. Concurrent with the completion of the acquisition, Lundin BV subscribed for 6,665,995 units of the Company at a purchase price of CND\$0.80 for aggregate proceeds of \$5.1 million. Each unit consists of one common share and approximately 0.75 warrants, such that an aggregate of 5,000,000 warrants were issued. Each whole warrant expires on February 1, 2010, and is exercisable for one common share of the Company upon payment of CDN\$1.20 per share.

The value of the PetroFalcon common shares issued was calculated using the average share price of PetroFalcon’s shares during the five days before, the day of and five days after the announcement of the acquisition. The excess of the purchase consideration over the adjusted book values of Lundin Venezuela’s assets and liabilities has been allocated to the 5% interest in Baripetrol.

6 Accounts receivable

The Company’s accounts receivable consisted of the following:

	March 31, 2009	December 31, 2008
	\$	\$
Chevron	-	5,762,698
PetroCumarebo	390,461	396,075
Value added tax	552,498	694,869
Miller Insurance Services	21,880	226,953
Others	188,459	211,926
	<u>1,153,298</u>	<u>7,292,521</u>
Bad debt provision	(304,069)	(320,398)
	<u>849,229</u>	<u>6,972,123</u>

On January 19, 2009, Vinccler Venezuela received \$5.8 million from Chevron as reimbursement for Vinccler Venezuela’s past Cardon III expenses and accrued interest.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited) For the three months ended March 31, 2009 and 2008

(expressed in U.S. dollars)

7 Shareholders' equity

The Company's authorized share capital is comprised of an unlimited number of common shares and preferred shares issuable in series. The common shares of PetroFalcon are all of the same class, are voting and entitle shareholders to receive dividends as and when declared by the Board of Directors.

Issued shares and contributed surplus

Changes in common shares and contributed surplus were as follows:

	Number of Shares	Amount \$	Contributed Surplus \$
As at December 31, 2007	86,581,336	51,680,606	8,072,330
Private placement	6,665,995	5,110,000	-
Acquisition of Lundin Venezuela	57,254,505	43,890,000	-
Issuance of broker's shares	569,284	436,400	-
Issuance of shares (for options exercised)	330,000	428,516	(151,918)
Agent's warrants	-	(1,867,386)	-
Guarantee fee paid to Lundin Petroleum	7,100,000	7,878,842	-
Stock-based compensation expense	-	-	797,366
As at December 31, 2008	158,501,120	107,556,978	8,717,778
Stock-based compensation expense	-	-	25,396
As at March 31, 2009	158,501,120	107,556,978	8,743,174

8 Stock-based compensation

The Company maintains a stock option plan whereby options can be granted to officers and certain employees. Stock options have a term of between 5 and 10 years. All stock options vest over 3 years and are exercisable at the market prices for the shares on the dates that the options were granted.

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A summary of changes in the number of outstanding stock options during the periods is presented below:

	March 31, 2009		December 31, 2008	
	Share Options	Weighted Average Exercise Price CDN\$	Share Options	Weighted Average Exercise Price CDN\$
Outstanding – Beginning of period	9,333,660	1.77	10,796,494	1.81
Granted	-	-	450,000	1.24
Exercised	-	-	(330,000)	0.85
Forfeited	-	-	(1,582,834)	1.99
Outstanding – End of period	<u>9,333,660</u>	<u>1.77</u>	<u>9,333,660</u>	<u>1.77</u>
Options exercisable – End of period	<u>8,883,660</u>	<u>1.80</u>	<u>8,883,660</u>	<u>1.80</u>

A summary of stock options outstanding at March 31, 2009, is set out below:

	Outstanding Stock Options		Exercisable Stock Options
Exercise Price CDN\$	Number	Weighted Average Remaining Contractual Life	Number
\$0.25	100,000	4.69 years	-
\$1.00	2,585,320	4.14 years	2,585,320
\$1.00	1,010,000	8.25 years	1,010,000
\$1.13	75,000	7.38 years	75,000
\$1.23	150,000	7.74 years	150,000
\$1.30	13,340	4.50 years	13,340
\$1.37	100,000	4.37 years	-
\$1.55	370,000	6.94 years	370,000
\$1.59	250,000	9.07 years	-
\$1.93	830,000	7.00 years	830,000
\$2.05	30,000	6.58 years	30,000
\$2.20	230,000	5.00 years	230,000
\$2.35	1,300,000	5.20 years	1,300,000
\$2.38	300,000	6.50 years	300,000
\$2.39	1,090,000	6.20 years	1,090,000
\$3.28	900,000	5.68 years	900,000
	<u>9,333,660</u>		<u>8,883,660</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. During the three months ended March 31, 2009, no options were granted. During the three months ended March 31, 2008, the Company

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recorded \$25,396 in stock-based compensation expense, compared to \$728,757 during the three month period ended March 31, 2008.

9 Related party transactions and balances

Pacific Oil and Gas

Pacific Oil and Gas, LLC (“Pacific Oil and Gas”) is controlled by PetroFalcon’s Vice Chairman, Clarence Cottman, and PetroFalcon’s President and CEO, William Gumma. The Company paid Pacific Oil and Gas for the three month period ended March 31, 2009, and 2008, \$189,000 and \$135,000, respectively. These payments include the salaries of Mr. Gumma and PetroFalcon’s Chief Financial Officer, Garrett Soden, as well as administrative services from Pacific Oil and Gas.

Lundin Services BV

PetroFalcon also receives technical services from Lundin Services BV, a wholly-owned subsidiary of Lundin Petroleum. Lundin Petroleum indirectly owns 45% of the Company, and Lundin Petroleum’s CEO, Ashley Heppenstall, is a board member of PetroFalcon. For the three month period ended March 31, 2009, and 2008, the Company paid Lundin Services BV for professional services in the amount of \$7,450 and nil, respectively. These payments for professional services include oil and gas geology, reserve and legal advice for PetroFalcon’s business development activities.

These related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10 Income tax

During the three month period ended March 31, 2009, and 2008, the Company did not record a current income tax expense.

11 Earnings per share

	Three months ended	
	March 31,	
	2009	2008
Net loss	(\$1,552,498)	(\$1,675,493)
Weighted average number of outstanding shares	158,501,120	118,813,728
Basic and diluted loss per share*	(\$0.01)	(\$0.01)

* The calculation of diluted loss per common share excludes options and warrants outstanding as the effect would be anti-dilutive.