

PetroFalcon Corporation

Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009 and 2008

(expressed in US dollars)

The accompanying unaudited interim consolidated financial statements of PetroFalcon Corporation (the "Company") for the three and six months ended June 30, 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)

	June 30, 2009	December 31, 2008
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents (note 4)	29,772,042	26,667,337
Accounts receivable (note 6)	1,043,064	6,972,123
Income tax recoverable	119,653	151,699
	<hr/>	<hr/>
	30,934,759	33,791,159
Investments in oil and gas companies (note 5)	54,046,990	54,046,990
Property and equipment	474,139	565,926
	<hr/>	<hr/>
	85,455,888	88,404,075
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LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	903,905	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)	8,784,671	8,717,778
Accumulated deficit	(33,657,052)	(30,657,482)
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	84,551,983	87,484,660
	<hr/>	<hr/>
	85,455,888	88,404,075
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The accompanying notes are an integral part of these interim consolidated financial statements.

PetroFalcon Corporation

Interim Consolidated Statements of Operations, Comprehensive Loss and Accumulated Deficit (Unaudited)

(expressed in U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Expenses				
General and administrative	1,372,899	1,566,018	2,882,297	3,196,958
Depreciation, depletion and amortization	57,431	26,299	115,630	51,711
Stock-based compensation (note 8)	41,498	26,288	66,893	755,045
	<u>1,471,828</u>	<u>1,618,605</u>	<u>3,064,820</u>	<u>4,003,714</u>
Loss before financing (expense) income and income tax	<u>(1,471,828)</u>	<u>(1,618,605)</u>	<u>(3,064,820)</u>	<u>(4,003,714)</u>
Financing (expense) income				
Interest income	69,196	278,053	205,271	170,365
Foreign exchange (loss) gain	(44,583)	262,594	(140,164)	519,004
Guarantee fee	-	(3,264,092)	-	(3,264,092)
Other income (expense)	143	(70,000)	143	490,894
	<u>24,756</u>	<u>(2,793,445)</u>	<u>65,250</u>	<u>(2,083,829)</u>
Net loss and comprehensive loss for the period	<u>(1,447,072)</u>	<u>(4,412,050)</u>	<u>(2,999,570)</u>	<u>(6,087,543)</u>
Accumulated deficit – Beginning of period	<u>(32,209,980)</u>	<u>(9,142,918)</u>	<u>(30,657,482)</u>	<u>(7,467,425)</u>
Accumulated deficit – End of period	<u>(33,657,052)</u>	<u>(13,554,968)</u>	<u>(33,657,052)</u>	<u>(13,554,968)</u>
Weighted average number of common shares outstanding (note 11)	<u>158,501,120</u>	<u>157,447,823</u>	<u>158,501,120</u>	<u>134,264,472</u>
Basic and diluted loss per share (note 11)	<u>(0.01)</u>	<u>(0.03)</u>	<u>(0.02)</u>	<u>(0.04)</u>

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

PetroFalcon Corporation

Interim Consolidated Statements of Cash Flows (Unaudited)

(expressed in U.S. dollars)

	Three months ended June 30		Six months ended June 30	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash provided by (used in) operating activities				
Net loss for the period	(1,447,072)	(4,412,050)	(2,999,570)	(6,087,543)
Items not affecting cash				
Depreciation, depletion and amortization	57,431	26,299	115,630	51,711
Guarantee fee	-	3,264,092	-	3,264,092
Bad debt expense	-	72,923	7,776	72,923
Stock-based compensation	41,498	26,288	66,893	755,045
Write off of other assets	30,000	-	30,000	-
	(1,318,143)	(1,022,448)	(2,779,271)	(1,943,772)
Net changes in non-cash working capital items				
Accounts receivable	(193,829)	612,734	5,921,299	(50,639)
Accounts payable and accrued liabilities	59,705	(3,128,684)	(15,510)	(2,863,788)
Income taxes recoverable	4,702	(45,330)	32,030	(153,090)
Deposit in guarantee	-	(5,000,000)	-	(5,000,000)
	(1,447,565)	(8,583,728)	3,158,548	(10,011,289)
Financing activities				
Repayment of short-term debt	-	(2,084,388)	-	(2,492,857)
Proceeds received on exercise of stock options	-	226,408	-	276,599
Private placement	-	-	-	5,110,000
	-	(1,857,980)	-	2,893,742
Investing activities				
Proceeds on sale of property and equipment	1,699	3,630,811	-	3,630,811
Acquisition of property and equipment	-	(175,151)	(53,843)	(186,580)
Baripetrol pre-acquisition dividends	-	-	-	1,910,000
Acquisition of Lundin Latina de Petróleos, S.A.	-	-	-	21,153,541
	1,699	3,455,660	(53,843)	26,507,772
(Decrease) increase in cash and cash equivalents during period	(1,445,866)	(6,986,048)	3,104,705	19,390,225
Cash and Cash equivalents – Beginning of period	31,217,908	31,150,203	26,667,337	4,773,930
Cash and Cash equivalents – End of period	29,772,042	24,164,155	29,772,042	24,164,155
Supplementary information				
Interest paid	-	371,058	-	588,852

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

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 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). Effective July 22, 2009, Vinccler Venezuela was renamed PFC Oil and Gas, C.A. (“PFC Venezuela”).

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 GAAP 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 policies and

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 a material impact on the Company’s interim consolidated financial statements.

CICA 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 issued Emerging Issues Committee Abstract 27, Revenues and Expenditures During the Pre-operating Period. The Company concluded that the adoption of this standard does not have a material impact on the interim consolidated financial statements.

CICA Section 1582 replaces the former CICA Section 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 interim consolidated financial statements.

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Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2009 and 2008

(expressed in U.S. dollars)

4 Cash and cash equivalents

Cash and cash equivalents comprised the following:

	June 30, 2009	December 31, 2008
	\$	\$
Cash in Canadian banks	29,617,530	25,972,887
Cash in foreign banks	154,512	694,450
	<u>29,772,042</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 0.50% to 2.20% during the six month period ended June 30, 2009, and from 3.08% to 0.80% during the year ended December 31, 2008.

5 Investments in oil and gas companies

The Company's investments comprise the following:

	June 30, 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 six month period ended June 30, 2009, and the year ended December 31, 2008.

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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 CA\$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 on payment of CA\$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 comprise the following:

	June 30, 2009	December 31, 2008
	\$	\$
Chevron	-	5,762,698
PetroCumarebo	588,552	396,075
Value-added tax	585,260	694,869
Miller Insurance Services	-	226,953
Interest and advances to employees	55,629	109,205
Others	98,097	102,721
	<u>1,327,538</u>	<u>7,292,521</u>
Bad debt provision	(284,474)	(320,398)
	<u>1,043,064</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.

As at June 30, 2009 and December 31, 2008, the provision for doubtful accounts considers the amount of value-added tax from the Venezuelan subsidiary that is considered to be uncollectible.

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7 Shareholders' equity

The Company's authorized share capital comprises 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 brokers' shares	569,284	436,400	-
Issuance of shares (for options exercised)	330,000	428,516	(151,918)
Agents' 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	-	-	66,893
As at June 30, 2009	158,501,120	107,556,978	8,784,671

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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 five and ten years. All stock options vest over three years and are exercisable at the market prices for the shares on the dates that the stock options were granted.

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

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	Number of stock options	Weighted average exercise price CA\$	Number of stock options	Weighted average exercise price CA\$
Outstanding – Beginning of period	9,333,660	1.77	10,796,494	1.81
Granted	1,670,000	0.35	450,000	1.24
Exercised	-	-	(330,000)	0.85
Forfeited	<u>(1,330,020)</u>	1.93	<u>(1,582,834)</u>	1.99
Outstanding – End of period	<u>9,673,640</u>	1.50	<u>9,333,660</u>	1.77
Options exercisable – End of period	<u>7,636,973</u>	1.77	<u>8,883,660</u>	1.80

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A summary of stock options outstanding as at June 30, 2009 is set out below:

Exercise Price CA\$	Outstanding stock options		Exercisable stock options
	Number	Weighted average remaining contractual life	Number
0.25	100,000	4.44 years	-
0.35	1,670,000	4.87 years	-
1.00	2,520,300	3.89 years	2,520,300
1.00	850,000	8.00 years	850,000
1.23	150,000	7.49 years	150,000
1.30	13,340	4.25 years	13,340
1.37	100,000	4.12 years	-
1.55	310,000	6.69 years	310,000
1.59	250,000	8.82 years	83,333
1.93	550,000	6.75 years	550,000
2.20	230,000	4.75 years	230,000
2.35	1,165,000	4.95 years	1,165,000
2.39	865,000	5.95 years	865,000
3.28	900,000	5.43 years	900,000
	<u>9,673,640</u>		<u>7,636,973</u>

The fair value of each stock 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	1.88%
Expected volatility	76.00%
Dividend yield rate	0.00%
Weighted average expected life of options	5 years
Weighted average grant date fair value	CA\$0.218

During the three and six months ended June 30, 2009, the Company recorded \$41,498 and \$66,893, respectively, in stock-based compensation expense, compared to \$26,288 and \$755,045 during the three and six months ended June 30, 2008, respectively.

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Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2009 and 2008

(expressed in U.S. dollars)

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 Chief Executive Officer, William Gumma. The Company paid Pacific Oil and Gas for the three months ended June 30, 2009 and 2008, \$135,000 and \$135,000, respectively. The Company paid Pacific Oil and Gas for the six months ended June 30, 2009 and 2008, \$324,000 and \$270,000, 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 AB (Lundin Petroleum). Lundin Petroleum indirectly owns 45% of the Company, and Lundin Petroleum's CEO, Ashley Heppenstall, is a member of the board of directors of PetroFalcon. For the three months ended June 30, 2009 and 2008, the Company paid Lundin Services BV for professional services in the amount of \$5,440 and nil, respectively. For the six months ended June 30, 2009 and 2008, the Company paid Lundin Services BV for professional services in the amount of \$12,890 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 taxes

During the three and six months ended June 30, 2009 and 2008, the Company did not record a current income tax expense.

PetroFalcon Corporation

Notes to Interim Consolidated Financial Statements

(Unaudited)

For the three and six months ended June 30, 2009 and 2008

(expressed in U.S. dollars)

11 Loss per share

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net loss for the year	\$(1,447,072)	\$(4,412,050)	\$(2,999,570)	\$(6,087,543)
Weighted average number of outstanding shares	158,501,120	157,447,823	158,501,120	143,264,472
Basic and diluted loss per share*	\$(0.01)	\$(0.03)	\$(0.02)	\$(0.04)

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

12 Subsequent event

On August 11, 2009, PetroFalcon announced the signing of a share purchase agreement for the acquisition of 90% of the outstanding shares of Solar Resources Holding Sarl (Etrion), a private renewable energy independent power producer, from Lorito Holdings Srl (Lorito) and related parties. Lorito is an investment company wholly owned by a Lundin family trust and holds 24% of the shares of Lundin Petroleum.

Subject to certain conditions, including receipt of all required regulatory approvals, PetroFalcon intends to acquire 90% of Etrion from the current shareholders at cost for 2.3 million Euros in cash (equivalent to \$3.26 million). Included in this amount, PetroFalcon is purchasing 4.425% of Etrion at cost for 115,434 Euros (equivalent to \$163,524) from Ashley Heppenstall, a Director of PetroFalcon and the President and CEO of Lundin Petroleum. PetroFalcon will also advance a loan to Etrion in the amount of 1.35 million Euros (equivalent to \$1.91 million) in order to repay an equivalent amount advanced to Etrion by Lorito.