



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2009

The following is dated as of April 5, 2010 and should be read in conjunction with the consolidated financial statements of Veraz Petroleum Ltd. ("Veraz" or the "Corporation") for the years ended December 31, 2009 and 2008.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars unless otherwise stated. This management's discussion and analysis ("MD&A") provides management's view of the financial condition of the Corporation and the results of its operations for the reporting periods.

Forward Looking Information

Certain information regarding Veraz set forth in this document, including Management's assessment of the Corporation's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward looking statements. Such statements represent Veraz's internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt, revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions and actual events or results may differ materially. Although Veraz believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause Veraz's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Veraz.

In particular, forward-looking statements included in this MD&A include, but are not limited to, the focus of capital expenditures; expectations regarding the ability to raise capital, the timing of capital spending and the Corporation's ability to maintain flexibility in its capital program; allocation of capital investment budget; projections of costs; Veraz's future operating and financial results; available tax pools; capital expenditure programs; treatment under governmental regulatory regimes and tax laws; accounting policies and adoption of new accounting policies; and timing of implementation of International Financial Reporting Standards.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Corporation's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; currency fluctuation; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of exploration and development programs; competition from other oil and gas companies; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; ability to access sufficient capital from internal and external sources, the uncertainty associated with negotiating with foreign governments and risks associated with international activity. Additional information related to Veraz is available for viewing on SEDAR at www.sedar.com.

With respect to forward-looking statements contained in this MD&A, Veraz has made assumptions regarding: timing and amount of capital expenditures; general economic conditions and the state of the financial markets; availability of services including seismic acquisition services and related equipment; and effects of regulation by governmental agencies.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide Shareholders with a more complete perspective on Veraz's future operations and such information may not be appropriate for other purposes. Veraz's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that the Corporation will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and the Corporation disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

General

The Corporation is a junior resource exploration stage company that focuses its business activities on international oil and gas exploration and development.

Highlights and Significant Transactions

- Received approval of the Corporation's Environmental Impact Assessment from the Peruvian authorities in May 2009;
- Received approval from the Peruvian Government and Perupetro of the transfer of half of the Corporation's 90% interest in Block 126 to Petrominerales Peru S.A. ("Petrominerales Peru") See "*Completed Transaction*" for additional details;
- Submitted an application to list the Corporation's shares on the TSX Venture Exchange. Approval of the application was received subsequent to year end;
- Completed a 150 square kilometer 3D and 50 kilometer 2D seismic program in December 2009. Processing of the data was completed subsequent to year end.

Results of Operations

During the year ended December 31, 2009, the Corporation incurred losses related to the Corporation's international oil and gas exploration and development activities. The net loss and comprehensive loss for the year ended December 31, 2009 totaled \$1,547,313 (2008 - \$1,955,398) and \$1,997,912 (2008 - \$2,026,840) respectively. The significant items comprising the loss and comprehensive loss for the year are described as follows.

General and Administrative

The Corporation incurred general and administrative expenses of \$1,362,672 for the year ended December 31, 2009 as compared to \$1,690,410 for the year ended December 31, 2008. The decrease in these expenses is largely attributable to a significant reduction in legal fees related to the Corporation's prospectus offering in 2008. General and administrative costs for the quarter ended December 31, 2009 were \$472,770 compared to \$457,853 for the same period the prior year.

Foreign Exchange Gains and Losses

Foreign exchange gains and losses include both realized and unrealized gains and losses. During the year ended December 31, 2009 the Corporation recognized a foreign exchange gain of \$418,107 as compared to a loss of \$15,188 in the prior year. The gain is attributable to a strengthening of the Canadian dollar against the US dollar which saw the CAD/US exchange rate drop from \$1.218 to \$1.051 during the year. As a result of this strengthening, the Corporation had a large gain when valuing the Corporation's US denominated loan

payable. Foreign exchange gains and losses totaled \$49,676 for the quarter ended December 31, 2009 as compared to \$15,188 for the same period the prior year.

Interest on Convertible Debentures

During the year ended December 31, 2009 there was no interest expense on convertible debentures as the debentures were converted on December 31, 2008.

Interest on Note Payable

For the year ended December 31, 2009 the Corporation incurred interest expense of \$321,346 (2008 - \$34,365) on the note payable owing to Petrominerales Peru. The increase in the expense is a result of the note payable being outstanding for approximately a month and a half in 2008 versus 11 months in 2009 as well as due to the Corporation receiving additional advances under the note during the year. The note initially had an interest rate of 18% through April 30, 2009 which decreased to 12% for the period May 1 – December 4, 2009. On December 4, 2009, the outstanding note payable converted to a non-interest bearing loan (the “Loan”) provided to the Corporation by Petrominerales Peru in connection with the closing of the sale of half of the Corporation’s 90% working interest in Block 126 to Petrominerales Peru. Interest expense for the quarter ended December 31, 2009 was \$70,407 as compared to \$34,365 in the prior quarter a year earlier with the increase attributable to a larger balance being outstanding for a longer period in the current year’s quarter as compared to same period the prior year.

Stock Based Compensation

Non-cash stock based compensation totaled \$228,271 for the year ended December 31, 2009, as compared to \$152,830 for the prior year. Non-cash stock based compensation reflects the fair value of all stock options granted during the year and is amortized over the vesting period of the option. During 2009, the Corporation granted 635,000 stock options to officers, directors and employees of the Corporation at a weighted average exercise price of \$0.61. A total of 20,000 stock options at an exercise price of \$0.35 were forfeited during the year. The expense in the current year reflects the amortization of the options granted in the prior and current periods. Stock based compensation expense for the quarter ended December 31, 2009 was \$54,271 as compared to \$72,830 in the prior quarter a year earlier.

Interest on Loan Payable

On December 4, 2009, the outstanding interest-bearing note payable owing to Petrominerales Peru was converted to a non-interest bearing Loan provided to the Corporation by Petrominerales Peru in connection with the closing of the sale by the Corporation to Petrominerales Peru of a 45% interest in Block 126. The Loan was provided and the note payable was discharged on the date on which the Corporation received approval from the Peruvian Government of the Corporation’s transfer of half of its working interest in Block 126 to Petrominerales Peru. For financial reporting purposes, the Loan is a financial instrument and is recognized at its amortized cost. The interest recognized was calculated based on the 12% interest rate attached to the note payable prior to it being discharged, from the date of payment, to December 31, 2009. No such amounts were recognized in the prior year.

Cash Flow

Cash flow is considered a non-GAAP measure; it is commonly used in the oil and gas industry and by the Corporation to assist Management and investors in measuring the Corporation’s ability to finance capital programs and repay its debt. Cash flow should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net earnings as determined in accordance with Canadian GAAP, as an indicator of the Corporation’s performance or liquidity. The following schedule sets out the reconciliation of cash flow from operations to cash flow.

	For the years ended December 31	
	2009	2008
Cash flow from operations	\$ (1,588,428)	\$ (1,900,415)
Add: changes in non-cash working capital	7,714,015	(1,863)
Cash flow	\$ 6,125,587	\$ (1,902,278)

For the year ended December 31, 2009 the Corporation had positive cash flow of \$6,125,587 as compared to negative cash flow of \$1,902,278 for the prior year. The changes in cash flows is largely the result of increases to the Corporation's accounts payable as a result of several large outstanding accounts payable related to the Corporation's seismic acquisition program in 2009.

Investing Activities

During the year ended December 31, 2009, the Corporation capitalized cash expenditures of \$6,281,272. Approximately \$500,000 in costs relate to the completion of an extensive Environmental Impact Assessment ("EIA") that was conducted on Block 126. The EIA was required to be completed prior to conducting any exploration and development activities on the Block and was approved by the Peruvian authorities in May 2009. Additionally, the Corporation completed at 150 square kilometer 3D and 50 kilometer 2D seismic program in December 2009 at a cost to the Corporation of approximately \$5,300,000. Additionally, the Corporation capitalized general and administrative expenses totaling \$389,073 and other assets totaling approximately \$75,000. Expenditures in the prior year were comprised mostly of EIA related costs.

Changes in non-cash working capital relate to outstanding joint interest billings. During the year ended December 31, 2009 the Corporation had cash negative cash flow of \$4,366,223 as compared to positive cash flow of \$385,735 in the prior year. The cash outflow in the current period is the result of an increase in outstanding joint interest receivables.

During the year ended December 31, 2009, the Corporation completed a transaction whereby the Corporation sold an option to sell half of the Corporation's interest in Block 126 for proceeds of \$524,252. There were no amounts recognized in the prior periods. See "*Completed Transaction*".

Financing Activities

The significant transactions comprising the Corporation's financing activities are described below.

Proceeds from Note Payable

During the year ended December 31, 2008, the Corporation entered into an agreement with Petrominerales Peru to sell half of the Corporation's 90% interest in Block 126. As part of this transaction Petrominerales Peru agreed to fund a portion of the Corporation's exploration program through a non-interest bearing, non-revolving term loan facility of US \$9,000,000. Until the approval of the transaction by the Peruvian Government on December 4, 2009, funds were advanced to the Corporation as an interest bearing promissory note. From January 1, 2009 to December 4, 2009, the Corporation was advanced US \$3,152,775 (CAD - \$3,204,726) under a promissory note payable to Petrominerales Peru. The conversion of the outstanding note payable to a non-interest bearing loan payable effective December 4, 2009, is a non-cash item. The Corporation was advanced US \$1,400,000 (CAD - \$1,705,200) under the note payable in the prior year.

Proceeds from Loan Payable

In conjunction with the completion of the sale of half of the Corporation's 90% interest in Block 126, agreement described above, the Corporation received US \$3,174,158 (CAD \$3,533,030) under the non-interest bearing loan facility. The proceeds include advances from Petrominerales Peru made subsequent to December 4, 2009. As stated above, all advances made under the interest bearing note payable were converted to a non-interest bearing loan as of December 4, 2009. There were no such advances made in the prior year.

Changes in Non-Cash Working Capital

During the period ended December 31, 2009, the Corporation had positive changes in non-cash working capital as a result of an increase in the interest payable related to the interest bearing promissory note described above. There were no such amounts recognized in the prior year.

Completed Transaction

On November 19, 2008, the Corporation entered into an agreement with Petrominerales Peru S.A.. ("Petrominerales Peru") whereby it agreed to sell half of its 90% interest in Block 126 (a 45% participating interest) to Petrominerales Peru for consideration of US \$500,000 and the condition that Petrominerales Peru provide the Corporation a non-interest bearing, non-revolving term loan in the amount of US \$9,000,000 (the "**Loan**") for the purpose of funding the Corporation's portion of the exploration program on Block 126. As described below, the Loan includes a term that if Petrominerales Peru requires the Loan to be repaid, the Corporation could repurchase the 45% participating interest (together with a 10% participating interest Petrominerales Peru acquired from a third-party) for \$1. During the year ended December 31, 2008, the Corporation received a US \$100,000 (CAD \$121,800) deposit as an advance on the purchase. The Corporation had the right in certain circumstances to buy the interest back.

On December 4, 2009 the Peruvian Government approved the transfer of the 45% interest to Petrominerales Peru. The remaining US \$400,000 of the purchase price was paid to the Corporation and the Loan was provided thereby completing the sale of the 45% working interest in the Block.

In conjunction with the agreement described above, Petrominerales Peru agreed to fund a portion of the Corporation's exploration program through a non-interest bearing, non-revolving term loan facility of US \$9,000,000. Until the approval of the transaction by the Peruvian Government on December 4, 2009, funds advanced to the Corporation were done so as an interest bearing promissory note. Subsequent to the approval of the transaction, the outstanding promissory note was converted to a non-interest bearing loan as described above. As at December 31, 2009, the Corporation had received US \$7,726,933 (CAD \$8,121,007) under the loan facility. Subsequent to year end, Petrominerales Peru acknowledged in writing receipt of the final processed seismic from the Corporation, On or before April 4, 2010, Petrominerales Peru will have the option to either: (a) forgive the loan in its entirety, or (b) demand repayment of the loan. If Petrominerales Peru chooses to demand the loan, the Corporation has the option to either repay the loan in its entirety or convert the loan into common shares of the Corporation if the conversion will not result in Petrominerales Peru holding more than 49% of the outstanding common shares of the Corporation. If the Corporation either repays or converts the loan to common shares of the Corporation, Petrominerales Ltd. will transfer and convey all of its shares and interests in Petrominerales Peru, which holds a 55% interest in Block 126, to the Corporation in exchange for \$1.

Under the terms of the Loan, Petrominerales Peru has the option to either require the Corporation to repay the Loan or to forgive the Loan. If Petrominerales Peru requires the Corporation to repay the Loan, upon such repayment Petrominerales Ltd., the parent of Petrominerales Peru, is required to sell all of the outstanding shares of Petrominerales Peru to the Corporation for \$1, which would result in the Corporation holding a 100% participating interest in Block 126. Subsequent to December 31, 2009, Petrominerales Peru forgave all amounts owing under the Loan. The Corporation will recognize the Loan forgiveness as contingent sale proceeds under the sale of the working interest in Block 126 as described above. Additionally, the balance of funds owing to the Corporation under the loan plus the forgiveness of the outstanding debt will eliminate the current working capital deficiency.

Share capital

The number of Veraz shares outstanding as at December 31, 2009 was 32,523,580. There were no shares issued in the current year. During the year ended December 31, 2008, the increase in shares outstanding was a result of the issuance of 2,126,749 common shares on conversion of a \$1,000,000 debenture and 200,000 common shares issued as a finder's fee related to the acquisition of the Corporation's interest in Block 126.

Stock options

During the year, the Corporation granted 635,000 share purchase options to officers, directors and employees of the Corporation. All the options granted vest over a three period and are exercisable over a five year period. On February 4, 2009 50,000 share purchase options were granted at an exercise price of \$0.15 per share, and on November 5, 2009 585,000 share purchase options were granted with an exercise price of \$0.65 per share. During the year 20,000 share purchase options were forfeited and 850,000 share purchase options vested with an exercise price of \$0.35. As at December 31, 2008 the Corporation had 2,570,000 share purchase options outstanding (1,870,000 newly issued, 700,000 modified) at an exercise price of \$0.35.

Work commitments

The Corporation has various work commitments related to its Exploration Agreement in respect of Block 126 and has entered into other contractual commitments which are summarized as follows and stated in USD.

	Total	< 1 Year	1-3 Years
Work commitments – Block 126	\$ 1,012,500	\$ 506,250	\$ 506,250

The Corporation's work commitments are comprised solely of its proportionate share of Letters of Guarantee that must be posted by the Corporation with Perupetro. These Letters of Guarantee represent the minimum value of the required work commitments under each stage of the Exploration Agreement. In addition to the commitments noted above, subsequent to year end the Corporation has posted a USD \$1,125,000 Letter of Guarantee that was required under the second stage work commitment.

Additionally, Under the Exploration Agreement, the Corporation is responsible to make an annual education and technology contribution, which contribution is based on commercial daily production and is described as follows:

		Gross	Net
From commencement until commercial production	US	\$50,000	\$22,500
From commercial production of 0-30,000 barrels per day	US	\$80,000	\$36,000
From commercial production of 30,001-50,000 barrels per day	US	\$120,000	\$54,000
Over 50,000 barrels per day	US	\$180,000	\$81,000

For estimates of the Corporation's proposed capital spending related to the Exploration Agreement, please see "Outlook".

Lease commitments and off balance sheet items

The Corporation has lease obligations totaling \$108,759 in 2010 and \$62,101 in 2011.

Capital disclosures

The Corporation's objective is to maintain a strong capital position in order to be able to fund its proportionate share of the work commitments under the Exploration Agreement.

Given that the Corporation's activities are in the exploration stage, the Corporation's capital structure includes common share capital, and working capital (current assets minus current liabilities) or net debt. From time to time, in order to maintain or adjust the capital structure, the Corporation may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels and required work commitments.

The Board of Directors has determined that the Corporation shall maintain sufficient capital such that working capital is positive and that sufficient capital is available to meet budgeted general and administrative expenses plus the Corporation's proportionate share of required work commitments for the next 12 months. As at December 31, 2009, the Corporation had negative working capital of \$7,966,002 (December 31, 2008 - \$1,301,476) thereby not meeting the required positive working capital criteria established by the Board. As described above, the Corporation entered into an agreement to sell a 45% working interest in the Block, which sale closed on December 4, 2009. The proceeds from the sale and the Loan (which was subsequently forgiven, on March 25, 2010) will be sufficient to fund the Corporation's budgeted general and administrative expenses and its proportionate share of required work commitments for 2010.

The Corporation is not subject to any externally imposed capital requirements.

Basis of Presentation and Accounting Policies

Going Concern

The consolidated financial statements of the Corporation have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of operations. The Corporation has experienced recurring losses, has not generated profitable operations and as at December 31, 2009, has a working capital deficiency of \$7,966,002 and has accumulated losses of \$9,809,577 since inception. Current oil and gas activities are in the exploration stage and have not identified oil and gas reserves. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise doubt about the ability of the Corporation to continue to meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, attain commercial production from its oil and gas properties and attain future profitable operations. See "*Completed Transaction*" and "*Capital Disclosures*" as they relate to management's plans to remediate the working capital deficiency. The consolidated financial statements do not include any adjustments for the recoverability and classification of recorded asset amounts, nor for the classification of liabilities and revenues and expenses that might be necessary should the Corporation be unable to continue as a going concern.

Oil & Gas Properties

The Corporation follows the full cost method of accounting for oil and gas properties and facilities whereby all costs associated with the acquisition, exploration for and development of petroleum and natural gas properties and related reserves are capitalized. Such costs include all direct costs relating to the development of the oil and gas properties, the cost of the acquisition of leases, and exploration and development and administrative costs directly related to development activities. As the Corporation's oil and gas activities are in the exploration stage, any incidental revenues are netted against costs until commercial production begins. These costs are evaluated in each reporting period to determine if the costs recorded are recoverable. Any costs that are considered unlikely to be recovered are written off. When commercial production begins, these capitalized costs will be depleted following the unit-of-production method based on proved reserves. Any gain or loss on the disposition of unproven properties would be recognized on a relative basis.

The carrying values of oil and gas properties may not reflect their future value. In particular, the future value of the oil and gas properties depends on the start-up of commercial production, the ability of the Corporation to obtain adequate financing and the future profitability of the oil and gas properties.

A limit is placed on the carrying value of the net capitalized assets in order to test impairment. The Corporation is required to perform this impairment test at least annually. An impairment loss may be indicated when the carrying value of the assets exceeds the estimated undiscounted future net cash flows associated with the asset's proved reserves. If there is indication of an impairment loss, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the asset's proved plus probable reserves are charged to depletion, depreciation and accretion on the statement of operations.

Changes in Significant Account Policies

Goodwill and Intangible Assets

As of January 1, 2009, the Corporation adopted new standards for Goodwill and Intangible Assets. New standards have been established for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The adoption of these new standards did not have any impact on the consolidated financial statements.

Business Combinations

In January 2009, "Business Combinations", Section 1582, replaced the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations.

Consolidated Financial Statements

"Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on the Corporation's consolidated financial statements.

Non-controlling Interests

"Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on the Corporation's consolidated financial statements.

International Financial Reporting Standards ("IFRS")

The AcSB has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") which will be effective for years beginning on or after January 1, 2011. The transition from current Canadian GAAP to IFRS may materially affect the Company's reported financial position and results of operations. Specific changes resulting from implementation of IFRS have not been determined at this time. Key information will be disclosed as it becomes available during the transition period.

Financial Instruments

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by

reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Corporation on December 31, 2009

Fair values of financial instruments

The Corporation's financial instruments as at December 31, 2009 include cash and accounts receivable, accounts payable and accrued liabilities, notes payable and loans payable.

Financial instrument	Category	Measurement method
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Financial liabilities	Amortized cost
Notes payable	Financial liabilities	Amortized cost
Loan payable	Financial liabilities	Amortized cost

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and notes payable approximate their carrying amounts due to their short terms to maturity.

The fair value of the loan payable is based on Level 3 inputs – items not observable in the market or from quoted prices. The fair value of the loan on December 4, 2009 was estimated based on the difference between the face value of the loan being \$8,360,490 and the unamortized discounted value of the loan using a 12% discount rate and term to maturity. See “*Completed Transaction*” above for details. The implied discount, which is the difference between the amount received and the fair value of the loan has been treated as a reduction of the Corporation’s property and equipment assets. The fair value of the loan at December 31, 2009 approximates its carrying value given the short period of time since issue.

Outlook

The Corporation recently was able to raise additional funds through a sale to Petrominerales of a 45% undivided interest in Block 126. As a result of this transaction, the Corporation was able to fully fund its proportionate share of work commitments for the second work period under the Exploration Agreement.

In December 2009, the Corporation completed a 150 square kilometer 3D and 50 kilometer 2D seismic program. The interpretation of the data is ongoing, but is anticipated to provide the Corporation with 3 to 4 drilling prospects for 2011. Accordingly, the Corporation will require additional funding in and beyond 2010 to fund infrastructure improvements to Block 126 as well as the anticipated 2011 drilling program. These activities will meet the obligations under the third and fourth period work commitments of the Exploration Agreement. These activities may be funded through additional transactions similar to that recently completed Petrominerales transaction, or through the sale of common shares through public or private offerings. The Corporation’s ability to successfully raise funds from the equity markets will largely depend upon general market conditions, the Corporation's ability to achieve certain exploration milestones and its ability to acquire new properties.

The Corporation's authorized share capital consists of an unlimited number of Class “A” common shares (“common shares”). As at December 31, 2009, the number of shares outstanding was 32,523,580. There were no common shares issued during the year.

During the period ended December 31, 2009, shareholders' equity decreased to \$1,542,327 from \$3,317,401 as at December 31, 2008. The decline in shareholders’ equity was the result of losses and comprehensive losses incurred during the year of \$1,547,313 and \$450,599 respectively which was partially offset by an increase to the Corporation’s contributed surplus of \$228,271 as a result of stock based compensation incurred during the year.

The following tables summarize selected audited and unaudited financial information of the Corporation as at and for the periods indicated and should be read in conjunction with the audited and unaudited consolidated financial statements of the Corporation and the notes thereto.

Selected Financial Information

	Three months ended							
	2009				2008			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Interest income	18	2	10	17	663	1,216	2,088	3,570
Loss from operations	594,499	154,312	229,493	569,009	598,471	827,481	197,926	332,060
Loss and comprehensive loss	672,187	398,330	421,052	506,343	598,471	827,481	197,926	332,060
Loss per share, basic	0.02	0.00	0.01	0.02	0.02	0.03	0.01	0.01
Loss per share, diluted	0.02	0.00	0.01	0.02	0.02	0.02	0.01	0.01
Weighted average shares outstanding for the period (000's)								
Basic	32,524	32,524	32,524	32,524	30,397	30,397	30,221	30,197
Diluted	32,524	32,524	32,524	32,524	32,397	32,397	30,221	30,197
Total assets (000's)	17,577	5,987	6,111	5,728	5,970	4,695	4,908	3,942
Long-term liabilities	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

	2007			
	Two months ended	Three months ended		
		Dec 31	Oct 31	Jul 31
Income from continuing operations	195	2,109	5,534	6,162
Loss from continuing operations	790,201	285,141	523,401	219,198
Loss from discontinued operations	572,103	12,173	123,301	89,083
Loss and comprehensive loss	1,362,304	297,314	646,702	308,281
Loss per share from continuing operations, basic and diluted	0.03	0.01	0.02	0.01
Loss per share from discontinued operations, basic and diluted	0.02	0.00	0.00	0.00
Loss per share, basic and diluted	0.05	0.01	0.02	0.01
Total assets (000's)	4,086	2,148	1,140	1,213
Long-term liabilities	Nil	Nil	Nil	Nil