



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD ENDED MARCH 31, 2010

The following is dated as of May 28, 2010 and should be read in conjunction with the consolidated financial statements of Veraz Petroleum Ltd. ("Veraz" or the "Corporation") for the period ended March 31, 2010 and 2009.

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 to list the Corporation's common shares on the TSX Venture Exchange. The common shares commenced trading on February 16, 2010 under the symbol VRZ;
- Pursuant to terms of the transaction whereby Petrominerales Peru S.A. ("Petrominerales Peru") purchased a 45% interest in Block 126, Petrominerales Peru elected on March 25, 2010 to forgive the US \$9.0 million loan outstanding to the Corporation. See "*Completed Transaction*" for additional details;

Results of Operations

During the period ended March 31, 2010, the Corporation incurred losses related to the Corporation's international oil and gas exploration and development activities. The net income and comprehensive income for the period ended March 31, 2010 totaled \$3,960,644 and \$3,948,253 respectively as compared to net and comprehensive losses of 569,009 and \$506,343 respectively. The significant items comprising the loss and comprehensive loss for the period are described as follows.

General and Administrative

The Corporation incurred general and administrative expenses of \$373,606 for the period ended March 31, 2010 as compared to \$373,052 for the period ended March 31, 2009. The Corporation's general and administrative spending has remained consistent as compared to the prior period as salary increases in the current period were offset by a reduction in employee levels and premises rental decreases as compared to the prior period.

Foreign Exchange Gains and Losses

Foreign exchange gains and losses include both realized and unrealized gains and losses. During the period ended March 31, 2010 the Corporation recognized a foreign exchange gain of \$88,101 as compared to a loss of \$56,031 in the same period 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 \$1.051 to \$1.0158 during the period. As a result of this strengthening, the Corporation had a large gain when valuing the Corporation's US denominated loan payable.

Interest on Note Payable

For the period ended March 31, 2010 the Corporation did not incur any interest expense on the note payable due to the conversion of the outstanding note payable to a non-interest bearing loan payable on December 4, 2009. In the prior year comparative period the Corporation incurred interest expense of \$79,152 on the note payable owing to Petrominerales Peru.

Stock Based Compensation

Non-cash stock based compensation totaled \$73,950 for the period ended March 31, 2010, as compared to \$58,000 for same period the prior year. Non-cash stock based compensation reflects the fair value of all stock options granted during the period and is amortized over the vesting period of the option. The increase in stock based compensation expense in the current period is due to the issuance of 635,000 stock options to officers, directors and employees of the Corporation in November 2009. There were no options granted in the prior period.

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 on December 4, 2009. The Corporation recognized \$194,966 in interest expense from January 1 to March 25, 2010 being the date of the forgiveness of the loan by Petrominerales Peru. No such amounts were recognized in the prior year.

Gain on Disposition of Unproven Property

On March 25, 2010, Petrominerales Peru forgave in its entirety the US \$9,000,000 loan facility advanced to the Company. The forgiveness of the loan was treated as contingent proceeds from the Corporation's sale of a 45% working interest in Block 126. The contingent proceeds were first allocated between the value of the unproven oil and natural gas property sold and the value of the unproven oil and natural gas property retained. As the Company sold 50% of its interest in the Block (representing a 45% working interest), the Company's oil and gas properties as at March 25, 2010 were reduced by 50% of the value on that date. The balance of the contingent sale proceeds was treated as a gain on disposition of the 50% interest in the Company's unproven oil and natural gas property.

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 March31	
	2010	2009
Cash flow from operations	\$ (360,421)	\$ (373,036)
Add: changes in non-cash working capital	(7,356,354)	(23,967)
Cash flow	\$ (7,716,955)	\$ (397,003)

For the period ended March 31, 2010 the Corporation had negative cash flow of \$7,716,955 as compared to negative cash flow of \$397,003 for the same period the prior year. The changes in cash flows are 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 period ended March 31, 2010, the Corporation capitalized cash expenditures of \$105,157 (2009 – 363,610). Capital spending in the current period relates to the processing of seismic data and capitalized general and administrative expenses. Expenditures in the prior period were comprised mostly of environmental impact assessment related costs. The Corporation has met the work commitments under the Second Exploration period (*See "Work commitments"*) and anticipates that capital expenditures in the current year will be limited to lease construction and infrastructure costs.

Changes in non-cash working capital relate to outstanding joint interest billings. During the period ended March 31, 2010 the Corporation had positive cash flow of \$3,865,866 as compared to negative cash flow of \$162,475 in the prior year. The cash inflow in the current period is the result of the collection of outstanding joint interest receivables.

Financing Activities

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

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 \$979,647 during the period representing the balance of proceeds owing under the non-interest bearing loan facility. The proceeds include advances from Petrominerales Peru made subsequent to March 4, 2010. There were no such advances made in the prior year.

Completed Transaction

On November 19, 2008, the Corporation entered into companion agreements 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 initial consideration of US \$500,000 and contingent consideration resulting from 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**"). As described below, the Loan included a term that if Petrominerales Peru required 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 period 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. The proceeds from the sale of the 45% interest in the Block was applied as a reduction of the Company's unproven oil and natural gas property.

In conjunction with the agreement described above, Petrominerales Peru agreed to fund a portion of the Company'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 Company 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 and as at March 24, 2010, the Company had received all US \$9,000,000 under the Loan.

On March 25, 2010, Petrominerales Peru elected to forgive the Loan in its entirety. The Loan forgiveness was treated as contingent sale proceeds, with the Company allocating the proceeds between the value of the unproven oil and natural gas property sold and the value of the unproven oil and natural gas property retained. As the Company sold 50% of its interest in the Block (representing a 45% working interest), the

Company's unproven oil and gas properties as at March 25, 2010 were reduced by 50% of the value on that date. The balance of the contingent sale proceeds was treated as a gain on disposition of the 50% interest in the Company's unproven oil and natural gas property.

Share capital

The number of Veraz shares outstanding as at March 31, 2010 was 32,523,580. There were no shares issued in the current or prior comparative period.

Stock options

There were no stock options granted in the current or prior comparative period.

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 period 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".

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 March 31, 2010, the Corporation had positive working capital of \$789,014 compared to negative working capital of \$7,966,002 at December 31, 2009. The change in the working capital is largely the result of

the additional funds received during the period under the loan facility from Petrominerales Peru and the subsequent forgiveness of the loan on March 25, 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 March 31, 2010, has accumulated losses of \$5,848,933 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 “*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.

Changes in Significant Account Policies

Business combinations, Non-controlling interests, consolidated financial statements

Effective January 1, 2011 the Company will be required to adopt the new Canadian accounting standards for “*Business Combinations*”, “*Non-controlling Interests*” and “*Consolidated Financial Statements*”. All three standards were issued in contemplation of convergence with International Financial Reporting Standards (“IFRS”) as discussed below. The new standards address accounting for business combinations, both at the time of acquisition and subsequent to the initial purchase accounting, and includes guidance on accounting for non-controlling interests and subsequent preparation of consolidated financial statements. The Company has no transactions that are affected by these new standards. Early adoption of the standards is allowed and will be considered if and when applicable transactions arise.

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.

Outlook

The Corporation is currently working with Petrominerales Peru to select drilling locations for an anticipated three well drilling program likely to commence in early to mid 2011. The Corporation’s activities and capital spending in the current year will focus on lease construction and infrastructure improvements in preparation for drilling in 2011.

The Corporation's authorized share capital consists of an unlimited number of Class “A” common shares (“common shares”). As at March 31, 2010, the number of shares outstanding was 32,523,580. There were no common shares issued during the year.

During the period ended March 31, 2010, shareholders' increased to \$5,564,530 from \$1,542,327 as at December 31, 2009. The increase in shareholders' equity was the result of income and comprehensive income incurred during the period of \$3,960,644 and \$3,948,253 respectively as a result of the income recognized from the forgiveness of the loan payable. Shareholders' equity was further increased by an increase to the

Corporation's contributed surplus of \$73,950 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								
	2010	2009				2008			
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Interest income	15	18	2	10	17	663	1,216	2,088	3,570
Gain on disposition of property	4,518,625	-	-	-	-	-	-	-	-
Income (loss) from operations	3,960,644	(594,499)	(154,312)	(229,493)	(569,009)	(598,471)	(827,481)	(197,926)	(332,060)
Comprehensive income (loss)	3,948,253	(672,187)	(398,330)	(421,052)	(506,343)	(598,471)	(827,481)	(197,926)	(332,060)
Income (loss) per share, basic	0.12	(0.02)	0.00	(0.01)	(0.02)	(0.02)	(0.03)	(0.01)	(0.01)
Income (loss) per share, diluted	0.12	(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	32,524	30,397	30,397	30,221	30,197
Diluted	32,524	32,524	32,524	32,524	32,524	32,397	32,397	30,221	30,197
Total assets (000's)	5,898	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	Nil

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