

Veraz Petroleum Ltd.
CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month Period ended March 31, 2010
(unaudited)

Veraz Petroleum Ltd.

Notice of No Auditor Review of Interim Consolidated Financial Statements

Pursuant to subsection 4.3(3)(a) of Part 4 of National Instrument 51-102 Continuous Disclosure Obligations, if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been so reviewed.

The accompanying unaudited interim consolidated financial statements of Veraz Petroleum Ltd. (the "Company") for the period as at and ending March 31, 2010 have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these financial statements.

(Signed) "Oppe Cosijn"
President and Chief Executive Officer

May 28, 2010

Veraz Petroleum Ltd.
Consolidated Balance Sheets (unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash	\$ 901,399	\$ 3,937,687
Accounts receivable	185,499	4,092,046
Prepaid expenses and deposits	35,304	38,698
	<u>1,122,202</u>	8,068,430
Property and equipment (note 4)	<u>4,775,516</u>	9,508,329
	<u>\$ 5,897,718</u>	<u>\$ 17,576,759</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 305,188	\$ 7,885,425
Notes payable (note 5)	28,000	28,000
Loan payable (note 4)	-	8,121,007
	<u>333,188</u>	16,034,432
Shareholders' Equity		
Share capital (note 6)	9,786,106	9,786,106
Contributed surplus (note 7)	2,161,789	2,087,839
Deficit	(5,848,933)	(9,809,577)
Accumulated other comprehensive loss	(534,432)	(522,041)
	<u>(6,383,365)</u>	(10,331,618)
	<u>5,564,530</u>	1,542,327
	<u>\$ 5,897,718</u>	<u>\$ 17,576,759</u>

Going concern (note 1)
 Commitments (note 8)

Approved by the Board

_____, Director
 "Trevor Mitzel"

_____, Director
 "Paul Baay"

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

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

	2010	2009
Interest income	\$ 15	\$ 16
Expenses		
General and administrative	373,606	373,052
Foreign exchange (gain) loss	(88,101)	56,031
Interest on notes payable (note 5)	-	79,152
Stock-based compensation (note 7)	73,950	58,000
Interest on loan payable	194,966	-
Depreciation	3,575	2,790
	<u>557,966</u>	<u>569,025</u>
Gain on disposition of unproven property (note 4)	4,518,625	-
Net income (loss) for the period	3,960,644	(569,009)
Other comprehensive loss		
Cumulative translation adjustment	(12,391)	62,666
Comprehensive income (loss) for the period	<u>3,948,253</u>	<u>(506,343)</u>
Deficit, beginning of period	(9,809,577)	(8,262,264)
Net income (loss) for the period	3,960,644	(569,009)
Deficit, end of period	\$ (5,848,933)	\$ (8,831,273)
Income (loss) per share (note 6)	\$ 0.12	\$ (0.02)

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

	2010	2009
Operating activities		
Net income (loss) for the period	\$ 3,960,644	\$ (569,009)
Items not affecting cash		
Gain on disposition of unproven property (note 4)	(4,518,625)	-
Unrealized foreign exchange gains	(74,931)	56,031
Interest on note payable (note 5)	-	79,152
Stock-based compensation (note 7)	73,950	58,000
Interest on loan payable	194,966	-
Depreciation	3,575	2,790
	<u>(360,421)</u>	<u>(373,036)</u>
Changes in non-cash working capital	<u>(7,356,534)</u>	<u>(23,967)</u>
	<u>(7,716,955)</u>	<u>(397,003)</u>
Investing activities		
Property and equipment expenditures	(105,157)	(363,610)
Changes in non-cash working capital	3,865,866	(162,475)
	<u>3,760,709</u>	<u>(526,085)</u>
Financing activities		
Share issue costs	-	(5,433)
Proceeds from loan payable (note 4)	979,647	-
	<u>979,647</u>	<u>(5,433)</u>
Effect of exchange rate changes on cash	<u>(59,690)</u>	<u>(33,367)</u>
Increase (decrease) in cash	<u>(3,036,288)</u>	<u>(961,888)</u>
Cash, beginning of period	<u>3,937,687</u>	<u>1,136,918</u>
Cash, end of period	<u>\$ 901,399</u>	<u>\$ 175,030</u>

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

1. Nature of operations

Veraz Petroleum Ltd. ("Veraz" or the "Company") is a junior resource exploration stage company that focuses its business activities on international oil and gas exploration and development. The Company has entered into a formal agreement (the "Exploration Agreement") to explore Ucayali Block 126 (the "Block"), located in east central Peru, South America.

Going Concern

These consolidated financial statements 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 Company 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 Company 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. These 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 Company be unable to continue as a going concern.

2. Basis of Presentation and Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. ("Canadian GAAP")

The consolidated financial statements include the accounts of the Company and its two wholly-owned subsidiaries, Veraz Petroleum Peru S.A.C. (formerly North American Vanadium Peru S.A.C.), incorporated under the laws of Peru on August 17, 2006 and acquired by the Company on November 22, 2006, and Veraz Petroleum (Barbados) Ltd., incorporated under the laws of Barbados on October 24, 2008. All significant inter-company transactions and balances have been eliminated.

3. Changes in Significant Accounting 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.

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

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.

4. Property and equipment

	March 31, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Oil and natural gas properties	\$ 4,668,081	\$ -	\$ 4,668,081
Equipment	127,991	20,556	107,435
	<u>\$ 9,667,203</u>	<u>\$ 20,556</u>	<u>\$ 4,775,516</u>

	December 31, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Oil and natural gas properties	\$ 9,393,738	\$ -	\$ 9,393,738
Equipment	132,061	17,470	114,591
	<u>\$ 9,525,799</u>	<u>\$ 17,470</u>	<u>\$ 9,508,329</u>

- (a) During the period ended March 31, 2010, the Company capitalized general and administrative expenses in the amount of \$30,251 (\$389,073 - December 31, 2009).

As the Company is in the development stage, all costs capitalized to oil and natural gas properties have been classified as unproved properties and accordingly, no depletion and depreciation expense has been recorded. When commercial production begins, these capitalized costs will be depleted following the unit-of-production method based on proved reserves.

- (b) On November 19, 2008, the Company 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 Company a noninterest bearing, non-revolving term loan in the amount of US \$9,000,000 (the "Loan"). As described in Note

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

4(c) below, the Loan includes a term that if Petrominerales Peru requires the Loan to be repaid, the Company 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 Company received a US \$100,000 (CDN \$121,800) deposit as an advance on the purchase.

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 Company 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 oil and natural gas property.

- (c) 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 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 the Loan as described above and as at March 24, 2010, the Company had received all US \$9,000,000 under the loan facility.

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 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.

5. Notes payable

- (a) Notes payable includes an amount of \$28,000 which is non-interest bearing and due on demand.
- (b) As described in Note 4(c), up until December 4, 2009, funds advanced to the Company by Petrominerales Peru for the purpose of assisting the Company in satisfying its obligations under the exploration program on Block 126 were done so in accordance with an interest bearing promissory note. The note initially had an interest rate of 18% through April 30, 2009, which was reduced to 12% for the period from May 1, 2009 to December 4, 2009. All amounts owing under the promissory note were converted on December 4, 2009 into the Loan described in Note 4(c).

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

6. Share capital

(a) Common Shares

Authorized:

Unlimited number of common shares without par value

Issued and outstanding:

	March 31, 2010		December 31, 2009	
	Shares	Amount	Shares	Amount
Balance, beginning of period	32,523,580	\$ 9,786,106	32,523,580	\$ 9,791,539
Shares issue costs	-	-	-	(5,433)
Balance, end of period	32,523,580	\$ 9,786,106	32,523,580	\$ 9,786,106

(b) Per share amounts

The weighted average number of common shares issued and outstanding for the period are as follows:

	March 31, 2010	December 31, 2009
Basic	32,523,580	32,523,580
Diluted	32,523,580	32,523,580

All stock options and warrants for all periods have been excluded from the diluted loss per share calculation as the effect would be anti-dilutive.

7. Options plans

(a) Stock options

The Company has a stock option plan whereby up to 10% of the issued and outstanding common shares may be granted to employees, directors and other persons who provide ongoing management or consulting services to the Company.

Stock options are granted for a term of five years and vest over three years from the date granted. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

As at March 31, 2010, the following options have been issued and remain outstanding:

	March 31, 2010		December 31, 2009	
	Options outstanding	Weighted average exercise price per share	Options outstanding	Weighted average exercise price per share
Balance, beginning of period	3,185,000	\$ 0.40	2,570,000	\$ 0.35
Granted	-	\$ -	1,870,000	\$ 0.61
Forfeited	-	\$ -	(20,000)	\$ 0.35
Balance, end of period	3,185,000	\$ 0.40	3,185,000	\$ 0.40
Options exercisable, end of period	850,000	\$ 0.35	850,000	\$ 0.35

The fair values of options granted during the period have been estimated based on the following assumptions:

Options Outstanding				Options Exercisable	
Range of Exercise price	Number Outstanding	Weighted average exercise price	Weighted average Remaining Contractual life (years)	Number exercisable	Weighted average exercise price
\$0.15-0.65	635,000	\$0.61	4.5	NIL	N/A
\$0.35	2,550,000	\$0.35	3.6	850,000	\$ 0.35
	3,185,000	\$0.40	3.8	850,000	\$ 0.35

(b) Stock –based compensation

The Company accounts for its stock-based compensation plan using the fair value method. Under this method stock-based compensation is charged to contributed surplus over the vesting period of the options granted.

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

There were no options granted during the period. The fair values of options granted during the prior period have been estimated based on the following assumptions:

	2009
Fair value	\$0.56
Average risk-free interest rate	2.0%
Expected life	3 years
Expected volatility	119%
Expected dividend	\$NIL

(c) Contributed surplus

	March 31, 2010	December 31, 2009
Balance, beginning of period	\$ 2,087,839	\$ 1,859,568
Stock-based compensation expense	73,950	228,271
Balance, end of period	<u>\$ 2,161,789</u>	<u>\$ 2,087,839</u>

8. Commitments

(a) Work commitments

- (i) During the period ended December 31, 2007, the Company entered into a License Contract to explore Ucayali Block 126, located in east central Peru, South America (the "Exploration Agreement"). The license is comprised of a four stage, seven-year work commitment where the Company has the right to withdraw from the license at the end of each period associated with the term of the license. The Company has purchased a performance bond in the amount of US \$180,000 to secure the capital expenditure requirements associated with the Company's interest in the exploration license.

	Duration	Activity	Letter of Guarantee Required
First Stage – <i>completed</i>	12 months from December 22, 2007	Reprocessing of 1,000 km of seismic lines and comprehensive geological study of the area	US \$ 200,000
Second Stage	24 months from completion of the first stage	Drilling of two (2) exploratory or confirmation wells	US \$ 2,500,000 (\$1,125,000)
Third Stage	24 months from completion of the second stage	Drilling of one (1) exploratory well	US \$ 1,250,000 (\$562,500)
Fourth Stage	24 months from completion of the third stage	Drilling of one (1) exploratory well	US \$ 1,250,000 (\$562,500)

Veraz Petroleum Ltd.

Notes to Consolidated Financial Statements

For the Three Month Period ended March 31 (*unaudited*)

During December 2008, the Company issued a letter of guarantee of US \$1,125,000 for their share of the second stage work commitment and replaced the letter of guarantee previously issued for the first stage work commitment.

- (ii) Under the Exploration Agreement, the Company 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
Upon commercial production of 0 - 30,000 barrels per day	US \$ 80,000	\$ 36,000
Upon 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

(b) Lease commitments

The Company has entered into several lease agreements for office space. The Company's financial commitment under the agreements is as follows:

2010	\$ 108,759
2011	62,101

9. Capital disclosures

The Company'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 Company's activities are in the exploration stage, the Company'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 Company 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 established that the Company maintains sufficient capital such that working capital is positive and that sufficient capital is available to meet budgeted general and administrative expenses plus the Company's proportionate share of required work commitments for the next 12 months. As at March 31, 2010, the Company had positive working capital of \$789,014 as compared to negative working capital of \$7,966,002 as at December 31, 2009. The Company does not meet the required positive working capital criteria established by the Board and as such the Corporation will require additional capital either through the sale of common shares or assets.

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