



**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS AT AND FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2010**

The following is dated as of August 23, 2010 and should be read in conjunction with the consolidated financial statements of Veraz Petroleum Ltd. ("Veraz" or the "Corporation") as at and for the three and six month periods ended June 30, 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;
- The Corporation has worked collaboratively with Petrominerales Peru to finalize three drilling locations which are anticipated to be drilled in the dry season next year. The three locations will target multiple zones in the La Colpa and Sheshea structures. The Corporation has estimated gross mean recoverable resources of 186 million barrels for these three targets.

Results of Operations

During the three and six month periods ended June 30, 2010, 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 three month period ended June 30, 2010 totaled \$500,026 and \$339,334 respectively as compared to net and comprehensive losses of \$229,493 and \$432,621 for the same period the prior year. Year to date net and comprehensive income for the period ended June 30, 2010 totaled \$3,460,618 and \$3,608,919 respectively as compared to net and comprehensive losses of \$798,502 and \$938,964 for the same six month period ended June 30, 2009. The significant items comprising the loss and comprehensive loss for the periods are described as follows.

General and Administrative

The Corporation incurred general and administrative expenses of \$436,019 for the three month period ended June 30, 2010 as compared to \$245,417 for the same period the prior year. General and administrative expenses for the six month period ended June 30, 2010 totaled \$809,625 as compared to \$618,469 for the six month period ended June 30, 2009. An increase in the Corporation's general and administrative spending in the current year is largely the result of a write-down of nearly \$200,000 in professional fees in the prior year comparative periods. Apart from the write down of professional fees, general and administrative expenses have remained consistent as compared to the prior year as salary increases in the current period were offset by a reduction in employee levels and building lease costs.

Foreign Exchange Gains and Losses

Foreign exchange gains and losses include both realized and unrealized gains and losses. During the three and six month periods ended June 30, 2010 the Corporation recognized foreign exchange gains of \$13,452 and \$101,553. This is compared to gains of \$155,292 and \$99,261 for the comparative periods the prior year. The decline in foreign exchange gains are attributable to the forgiveness of the loan owing to Petrominerales Peru during the three months ended March 31, 2010. Prior foreign exchange gains were a result of the strengthening of the Canadian dollar against the US dollar and its relative effect on the valuation of the Corporation's US denominated loan payable. Foreign exchange gains in the current period are primarily the result of the conversion of US funds to Canadian funds.

Interest on Note Payable

For the three and six month periods ended June 30, 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, the Corporation incurred interest expenses of \$79,920 and \$159,072 for the same three and six month periods related to the note payable owing to Petrominerales Peru.

Stock Based Compensation

Non-cash stock based compensation totaled \$73,950 for the three month period ended June 30, 2010 as compared to \$58,000 for the same period the prior year. Non-cash stock based compensation for the six month period ended June 30, 2010 totaled \$147,900 as compared to \$116,000 for the six month period ended June 30, 2009. 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 year is due to the issuance of 635,000 stock options to officers, directors and employees of the Corporation in November 2009, which expense is not reflective in the prior comparative periods.

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 the current three month period or 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cash flow from operations	\$ (422,486)	\$ (84,640)	\$ (782,907)	\$ (648,890)
Add: changes in non-cash working capital	(94,911)	(343,241)	(7,451,455)	(175,994)
Cash flow	\$ (517,397)	\$ (427,881)	\$ (8,234,352)	\$ (824,884)

For the three and six month periods ended June 30, 2010 the Corporation had negative cash flow of \$517,317 and \$8,234,352. This is compared to negative cash flow of \$427,881 and \$824,884 for the same three and six month periods 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 three and six month periods ended June 30, 2010, the Corporation capitalized cash expenditures of \$48,236 and \$153,115 (2009 – \$111,115 and \$474,725). 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 three and six month periods ended June 30, 2010 the Corporation had positive cash flow of \$9,681 and \$3,875,547. This is compared to the negative cash flow of \$209,866 and \$372,341 in the three and six month periods the prior year. The cash inflow in the current three and six month periods 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 six month period ending June 30, 2010, 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 current three month period or during the prior year comparative periods.

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 June 30, 2010 was 32,523,580. No shares have been issued in the current year or prior comparative periods.

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 June 30, 2010, the Corporation had positive working capital of \$329,829 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 June 30, 2010, has accumulated losses of \$6,348,959 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's activities and capital spending in the current year will focus on lease construction and infrastructure improvements in preparation of a three well drilling program targeting the LaColpa and Sheshea structures expected to commence in mid 2011.

The Corporation's authorized share capital consists of an unlimited number of Class "A" common shares ("common shares"). As at June 30, 2010, the number of shares outstanding was 32,523,580. There were no common shares issued during the year.

During the period ended June 30, 2010, shareholders' equity increased to \$5,299,146 from \$1,542,327 as at December 31, 2009. The increase in shareholders' equity was the result of net income and comprehensive income incurred during the six month period of \$3,466,500 and \$3,608,919 respectively. Net and comprehensive income earned during the six months ended June 30, 2009 is primarily a gain recognized from the disposition of half of the Company's 90% working interest in Block 126 to Petrominerales. Shareholders' equity was further increased by an increase to the Corporation's contributed surplus of \$147,900 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			
	June 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Interest income	18	15	18	2	10	17	663	1,216	2,088	3,570
Gain on disposition of property	-	4,518,625	-	-	-	-	-	-	-	-
Income (loss) from operations	(500,026)	3,960,644	(594,499)	(154,312)	(229,493)	(569,009)	(598,471)	(827,481)	(197,926)	(332,060)
Comprehensive income (loss)	(339,334)	3,948,253	(672,187)	(398,330)	(432,621)	(506,343)	(598,471)	(827,481)	(197,926)	(332,060)
Income (loss) per share, basic	(0.02)	0.12	(0.02)	0.00	(0.01)	(0.02)	(0.02)	(0.03)	(0.01)	(0.01)
Income (loss) per share, diluted	(0.02)	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	32,524	30,397	30,397	30,221	30,197
Diluted	32,524	32,524	32,524	32,524	32,524	32,524	32,397	32,397	30,221	30,197
Total assets (000's)	5,728	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	Nil

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