



**Annual Information Form**

**For the**

**Year Ended  
December 31, 2010**

**Dated April 28, 2011**

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## ABBREVIATIONS

### Crude Oil and Natural Gas Liquids

Bbls	barrels
Bbls/d	barrels per day
Mbbl	thousand barrels
Mmbbl	million barrels
Boe	barrels of oil equivalent of natural gas, on the basis of 1 boe for 6 mcf of natural gas

Mboe	thousands of barrels of oil equivalent
Mmboe	millions of barrels of oil equivalent
Boe/d	barrels of oil equivalent per day
Bopd	barrels of oil per day
NGLs	natural gas liquids
stb	standard stock tank barrel

### Natural Gas

Mcf	thousand cubic feet
Mmcf	million cubic feet
Bcf	billion cubic feet
Tcf	trillion cubic feet
Mcfe	thousand cubic feet equivalent, on the basis of 1 barrel to 6 thousand cubic feet
Mcf/d	thousand cubic feet per day
Mmcf/d	million cubic feet per day
GJ	gigajoule
GJs/d	gigajoules per day
btu	British thermal unit
mmbtu	million British thermal units

### Other

API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale
m <sup>3</sup>	cubic metres
km	kilometers
km <sup>2</sup>	square kilometres
m	metres
2D	two dimensional
3D	three dimensional
\$000s or \$M	thousands of dollars

Measurements expressed in Boe or Mcfe may be misleading, particularly if used in isolation. A Boe conversion ratio of 6 Mcf:1 Bbl and an Mcfe conversion ratio of 1 bbl:6 Mcf are based on an approximate energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

## CONVERSION

The following table sets forth certain standard conversions from Standard Imperial units to the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	thousand cubic metres ("10 <sup>3</sup> m <sup>3</sup> ")	0.0282
thousand cubic metres	Mcf	35.494
Bbls	cubic metres ("m <sup>3</sup> ")	0.159
cubic metres	Bbls	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

## GLOSSARY OF TERMS

In this Annual Information Form, the following words and phrases have the following meanings, unless the context otherwise requires.

"**ABCA**" means the *Business Corporations Act* (Alberta);

"**Block 126**" means the approximately 1.1 million hectare area in east central Peru known as Block 126 contracted by the Corporation pursuant to the Block 126 License for the exploration and exploitation of hydrocarbons;

"**Block 126 License**" means the License Contract for the Exploration and Exploitation of Hydrocarbons in Block 126 dated October 23, 2007 among Perupetro, Petrominerales Peru (as successor to True Energy Peru) and Veraz Peru;

"**Block 141**" means the approximately 554,765 hectare area in the Lake Titicaca region of southern Peru known as Block 141;

"**Block 161**" means the approximately 491,784 hectare area in the Ucayali region of east-central Peru known as Block 161;

"**Blocks**" means, collectively, Block 126, Block 141 and Block 161;

"**CNSX**" means the Canadian National Stock Exchange;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"**Common Shares**" means the common shares in the capital of the Corporation;

"**Contractors**" means, collectively, Veraz Peru and Petrominerales Peru, in their capacities as parties to the Block 126 License;

"**Corporation**" or "**Veraz**" means Veraz Petroleum Ltd.;

"**EIA**" means the environmental impact assessment required to be completed by the Contractors and approved by the Ministry of Energy and Mines of Peru under applicable Peruvian law and regulation prior to commencing any field activities on Block 126;

"**EWUs**" means exploration work units;

"**Existing 2D Seismic Data**" means the approximately 1,200 km of 2D seismic data in respect of Block 126 to which the Corporation was granted full access in connection with entering into the Block 126 License;

"**First Exploration Period**" means the first exploration phase period under the Block 126 License, beginning on December 23, 2007 and ending 12 months thereafter;

"**Fourth Exploration Period**" means the fourth exploration phase period under the Block 126 License, beginning on the first day after the last day of the Third Exploration Period and ending 24 months thereafter;

"**Hydrocarbons Law**" means the consolidated revised text of *Law No. 26221, Hydrocarbons Organic Law* (Peru), approved by Supreme Decree No. 042-2005-EM, as amended, and all regulations promulgated thereunder;

"**Joint Operating Agreement**" means the joint operating agreement dated effective as of October 23, 2007, between Veraz Peru and Petrominerales Peru (as successor to True Energy Peru) relating to Block 126, as amended from time to time;

**"Loan Agreement"** means the loan agreement dated November 19, 2008 among Petrominerales Peru, Petrominerales Ltd., Veraz Barbados and the Corporation, as amended August 31, 2009, in respect of a non-interest bearing, non-revolving term loan in the amount of USD\$9,000,000 provided by Petrominerales Peru to Veraz Barbados for the purpose of funding the Corporation's portion of the exploration program on Block 126;

**"NI 51-101"** means National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities;

**"Occidental"** means Occidental Petroleum Corporation;

**"Perupetro"** means Perúpetro S.A., the state company of Peru responsible for granting all petroleum exploration and development rights in Peru by means of hydrocarbon contracts executed pursuant to the Hydrocarbons Law;

**"Petroperu"** means Petróleos del Perú S.A., the state company of Peru engaged in downstream activities, including transportation, refining, distribution, commercialization and fuel retail, in Peru;

**"Petrominerales Peru"** means Petrominerales Peru S.A.C., a corporation organized under the laws of Peru and a subsidiary of Petrominerales Ltd. (a Toronto Stock Exchange listed company with oil and gas operations in Columbia);

**"Petrominerales Purchase"** has the meaning set forth under the heading "*General Description and Development of the Business – Three Year History*";

**"Purchase and Sale Agreement"** means the agreement dated November 19, 2008 between Veraz Peru and Petrominerales Peru whereby Veraz Peru agreed to sell a 45% interest in Block 126 to Petrominerales Peru;

**"Second Exploration Period"** means the second exploration phase period under the Block 126 License, beginning on the first day after the last day of the First Exploration Period and ending 24 months thereafter;

**"Third Exploration Period"** means the third exploration phase period under the Block 126 License, beginning on the first day after the last day of the Second Exploration Period and ending 24 months thereafter;

**"True Energy Peru"** means True Energy Peru S.A.C., a corporation organized under the laws of Peru and a subsidiary of True Energy Trust (predecessor to Bellatrix Exploration Ltd.);

**"TSXV"** means the TSX Venture Exchange;

**"Veraz Barbados"** means Veraz Petroleum (Barbados) Ltd., a corporation organized under the laws of Barbados and a wholly-owned subsidiary of the Corporation; and

**"Veraz Peru"** means Veraz Petroleum Peru S.A.C. (formerly North American Vanadium Peru S.A.C.), a corporation organized under the laws of Peru and a subsidiary of the Corporation.

Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

Unless otherwise specified, information in this Annual Information Form is as at December 31, 2010.

## FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein including, without limitation, resource estimates and related information, expected levels of operational activity, drilling, seismic, environmental study, infrastructure and transportation plans, including timing thereof, anticipated timing for receiving government approvals, projected budget information for 2011, and expected royalty rates are forward-looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these and other forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of resource estimates, changes in royalty rates and expenses, environmental risks, partner risk and competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, changes in the regulatory and taxation environment, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined under "Risk Factors" and elsewhere herein. The resource estimates provided herein are estimates only and there is no certainty that any portion of the prospective resources will be discovered. There is no certainty that it will be commercially viable to produce any portion of the prospective resources (if discovered) or contingent resources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Veraz believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Veraz can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Veraz operates; the timely receipt of any required regulatory approvals; the ability of Veraz to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which Veraz has an interest in to operate the field in a safe, efficient and effective manner; the ability of Veraz to obtain financing on acceptable terms; the ability to discover and produce oil and natural gas resources, the ability to replace and expand oil and natural gas reserves and resources through acquisition, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Veraz to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Veraz operates; and the ability of Veraz to successfully market its oil and natural gas products.

Readers are cautioned that the foregoing list of factors is not exhausted. Additional information on these and other factors that could affect Veraz's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and at Veraz's website ([www.verazpetroleum.com](http://www.verazpetroleum.com)). Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and the Corporation assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward-looking statements and other information contained herein concerning the oil and gas industry and the Corporation's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve and resource reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Corporation is not aware of any misstatements

regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

Veraz was incorporated under the name "320092 British Columbia Ltd." on January 12, 1987 pursuant to the *Companies Act* (British Columbia). On each of March 24, 1987, December 12, 1991, September 23, 1999 and November 29, 2002, the Corporation amended its memorandum to change its name. On August 29, 2005, the Corporation filed a notice of alteration to change its name to "North American Vanadium Inc." and on June 25, 2007, the Corporation filed a notice of alteration to change its name to "Veraz Petroleum Ltd.". The Corporation was transitioned under the *Business Corporations Act* (British Columbia) on August 16, 2005 and continued pursuant to the provisions of the ABCA on January 24, 2008.

The Corporation has two wholly-owned subsidiaries, Veraz Barbados and Veraz Peru. Oppe Cosijn, the President, Chief Executive Officer and a director of the Corporation, is the legal owner of 0.01% of the issued and outstanding shares of Veraz Peru, which shares are held in trust for the benefit of the Corporation pursuant to a Declaration of Trust dated February 11, 2008.

The Corporation's head office is located at 200, 209 – 8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 1B8, and its registered office is located at 15th Floor, Bankers Court, 850 – 2<sup>nd</sup> Street SW., Calgary, Alberta T2P 0R8.

The Common Shares trade on the TSXV under the symbol "VRZ".

### GENERAL DESCRIPTION AND DEVELOPMENT OF THE BUSINESS

The Corporation is an Alberta based international junior oil and gas exploration company with a 20% participating interest in each of Block 126, Block 141 and Block 161 located in Peru. The execution of the Block 126 License was the first step of the Corporation in establishing a presence in South America.

### Three Year History

The following is a summary of significant events in the development of Veraz over the last three completed financial years.

In May 2008, the Corporation completed a private placement of \$1,000,000 aggregate principal amount of 10% unsecured convertible debentures (the "**10% Debentures**"). The 10% Debentures were issued pursuant to a convertible debenture agreement dated May 16, 2008 between the Corporation and the debentureholders (the "**Convertible Debenture Agreement**"). In accordance with the Convertible Debenture Agreement, the 10% Debentures were converted to Common Shares on December 31, 2008 at a deemed price of \$0.50 per share. As a result of the conversion, the Corporation issued 2,126,749 Common Shares, including 126,749 Common Shares issued in satisfaction of accrued interest.

On November 19, 2008, Veraz Peru entered into the Purchase and Sale Agreement and the Loan Agreement pursuant to which Petrominerales Peru agreed to purchase half of the Corporation's 90% interest in Block 126 (a 45% participating interest) for USD\$500,000 (the "**Petrominerales Purchase**") and loan the Corporation, on an interest-free basis, USD\$9,000,000 (the "**Loan**") for the purpose of funding the Corporation's portion of the exploration program on Block 126. The Petrominerales Purchase was completed effective December 4, 2009 following the satisfaction of certain conditions to closing, including the concurrent acquisition by Petrominerales Peru of True Energy Peru's 10% participating interest in Block 126 and receipt of Peruvian government approval. In connection with the Petrominerales Purchase, Petrominerales Peru also became the operator of Block 126 under the Joint Operating Agreement.

Under the Loan Agreement, USD\$3,000,000 of the Loan was to be made available upon closing of the sale of the Petrominerales Purchase, with the balance to be provided on the later of closing and the Peruvian government's approval of the EIA. Due to delays in obtaining the necessary government approvals to the Petrominerales Purchase and the resulting delay in closing, Petrominerales Peru provided Veraz Barbados an interim advance in the aggregate amount of USD\$5,878,049 pursuant to an interest bearing promissory note, which funds were used to assist the

Corporation in satisfying certain of its obligations in connection with the EIA and seismic acquisition. Upon closing of the Petrominerales Purchase the promissory note was converted to the Loan.

On February 16, 2010, the Common Shares were listed on the TSXV under the symbol "VRZ".

On March 24, 2010, Petrominerales Peru notified Veraz Barbados and the Corporation that it was forgiving all amounts owing under the Loan. Under the terms of the Loan Agreement, if Petrominerales Peru had not forgiven the Loan, but rather had required Veraz Barbados to repay it, upon such repayment Petrominerales Ltd. would have been required to sell all of the outstanding shares of Petrominerales Peru to the Corporation for \$1, which would have resulted in the Corporation holding a 100% participating interest in Block 126. However, as Petrominerales Peru waived repayment of the Loan, it effectively acquired a 45% participating interest in Block 126 from Veraz Peru for USD\$9,500,000, being the amount of the Loan plus the consideration paid pursuant to the Purchase and Sale Agreement, which proceeds were used by Veraz Peru to satisfy certain of its obligations under the exploration program on Block 126, including the EIA and seismic data acquisition.

On October 13, 2010, the Corporation and Veraz Peru entered into agreements with Petrominerales Ltd. and Petrominerales Peru pursuant to which, subject to approval by Perupetro, Petrominerales Peru acquired from Veraz Peru a further 25% interest in Block 126, resulting in Petrominerales Peru and Veraz Peru holding 80% and 20% participating interests, respectively, in Block 126. In consideration for the assignment of such 25% interest, (i) the Corporation received a cash payment of USD\$2,250,000, (ii) Petrominerales Peru is required to assume and pay certain costs and expenses of Veraz Peru under the Joint Operating Agreement corresponding to its remaining 20% interest in Block 126, to a maximum of USD\$4.5 million, and (iii) for every 4 million barrels of gross production from Block 126, Petrominerales Peru shall pay Veraz Peru a bonus payment of USD\$2 million, up to a maximum USD\$8 million. In addition, subject to obtaining all requisite approvals of the Peruvian government, which are anticipated to be received by the end of 2011, Veraz Peru was granted a 20% participating interest in each of Block 141 and Block 161.

On November 30, 2010, the Corporation completed a bought deal prospectus offering of 21,000,000 units at a price of \$0.73 per unit for gross proceeds of \$15,330,000. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant, with each whole warrant entitling the holder thereof to acquire one Common Share at a purchase price of \$1.10 until May 30, 2012; provided that Veraz may accelerate the expiry date in the event that the Common Shares trade at a volume weighted average trading price of not less than \$1.65 per share for a period of 20 consecutive trading days.

### **Significant Acquisitions**

Veraz has not completed any significant acquisitions during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102.

## **RESOURCE ESTIMATES**

The information set forth below relating to the Corporation's resource estimates for blocks 126, 141 and 161 constitute forward-looking information which is subject to certain risks and uncertainties, including those associated with the drilling and completion of future wells, limited available geological and geophysical data and uncertainties regarding the actual production characteristics of the reservoirs, all of which have been assumed by the Corporation. Specifically, on Block 126 limited flow testing was performed on the La Colpa 1X well and no stimulations, either mechanical or chemical, were attempted. As such, certain assumptions were necessarily made on the permeability of the various reservoirs to hydrocarbons on the Block. With respect to Block 161, there is a limited amount of seismic data available and most of the drilling data is dated. On Block 141, the only information available is derived from a gravity and magnetics survey and from outcrop information; there is no seismic or drilling data on Block 141 from which to make direct inferences about reservoir distribution, quality or trapping. The estimates of the Corporation's resources provided herein are only estimates and there is no guarantee that the estimated resources will be recovered or produced. Actual resources may be greater than or less than the estimates provided herein. There is no certainty that any portion of the contingent resources described below will ever be produced or that the prospective resources described below will be discovered. There is also no certainty that it will be commercially viable for the Corporation to produce any portion of such prospective and contingent resources. **The Corporation**

**does not currently have any reserves (or related future net revenue) or production.** See "*Forward-Looking Statements*" and "*Risk Factors*".

### **Qualified Reserves Evaluator**

The below resource estimates were prepared by Case Caulfield, the Vice-President, Exploration of the Corporation. Mr. Caulfield is a qualified reserves evaluator within the meaning of NI 51-101, but he is not independent in respect of the Corporation within the meaning of NI 51-101. The estimates were prepared in accordance with the procedures contained in the COGE Handbook.

### **Resource Definitions**

The following definitions derived from the COGE Handbook are used in presenting the Corporation's internal resource estimates:

**"best estimate"** means the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.

**"contingent resources"** means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status.

**"high estimate"** means an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities actually recovered will equal or exceed the high estimate.

**"low estimate"** means a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the low estimate. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities actually recovered will equal or exceed the low estimate.

**"prospective resources"** means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development. Prospective resources are further subdivided in accordance with the level of certainty associated with recoverable estimates assuming their discovery and development and may be subclassified based on project maturity.

### **Internal Resource Estimates**

#### ***Block 126***

Effective February 1, 2010, management of the Corporation has assigned contingent resources to the Agua Caliente, Copacabana, Tarma and Green Sandstone formations of the La Colpa Structure on Block 126. Management has also assigned prospective resources to the balance of the La Colpa Structure and to the La Colpa South, Poco La Colpa and Sheshea structures and the Shahuinto Cushabatay/Ene Edge lead within the block.

The following table summarizes the contingent resources assigned by management to the La Colpa Structure effective February 1, 2010:

<b>Name</b>	<b>Low Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>Best Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>High Estimate (Mmbbl)<sup>(3)(4)</sup></b>
Agua Caliente formation			
Gross Lease <sup>(1)</sup>	2.96	9.54	19.31
Gross Company <sup>(2)</sup>	0.59	1.91	3.86
Copacabana formation			
Gross Lease <sup>(1)</sup>	0.39	16.06	43.60
Gross Company <sup>(2)</sup>	0.08	3.21	8.72
Tarma formation			
Gross Lease <sup>(1)</sup>	0.13	0.60	1.36
Gross Company <sup>(2)</sup>	0.03	0.12	0.27
Green Sandstone formation			
Gross Lease <sup>(1)</sup>	0.30	2.43	6.09
Gross Company <sup>(2)</sup>	0.06	0.49	1.22
<b>TOTAL<sup>(5)</sup></b>			
<b>Gross Lease<sup>(1)</sup></b>	3.78	28.63	70.36
<b>Gross Company<sup>(2)</sup></b>	0.76	5.73	14.07

Notes:

- (1) Represents an estimate of the Corporation's and Petrominerales Peru's 100% interest in the resources before deduction of royalties and without including any royalty interests.
- (2) Represents an estimate of the Corporation's 20% working interest in the resources before deduction of royalties and without including any royalty interests.
- (3) Estimates of the contingent resources have been made by the Corporation using the Rose Technique.
- (4) There is no certainty that it will be commercially viable to produce any portion of the contingent resources.
- (5) The aggregate of the low estimate, best estimate and high estimate cases for the contingent resources attributed to the Agua Caliente, Copacabana, Tarma and Green Sandstone formations may not reflect the same confidence level as the low estimate, best estimate and high estimate cases for the contingent resources for all of such formations due to the effects of aggregation.

The following table summarizes the prospective resources assigned to Block 126 by management as of February 1, 2010:

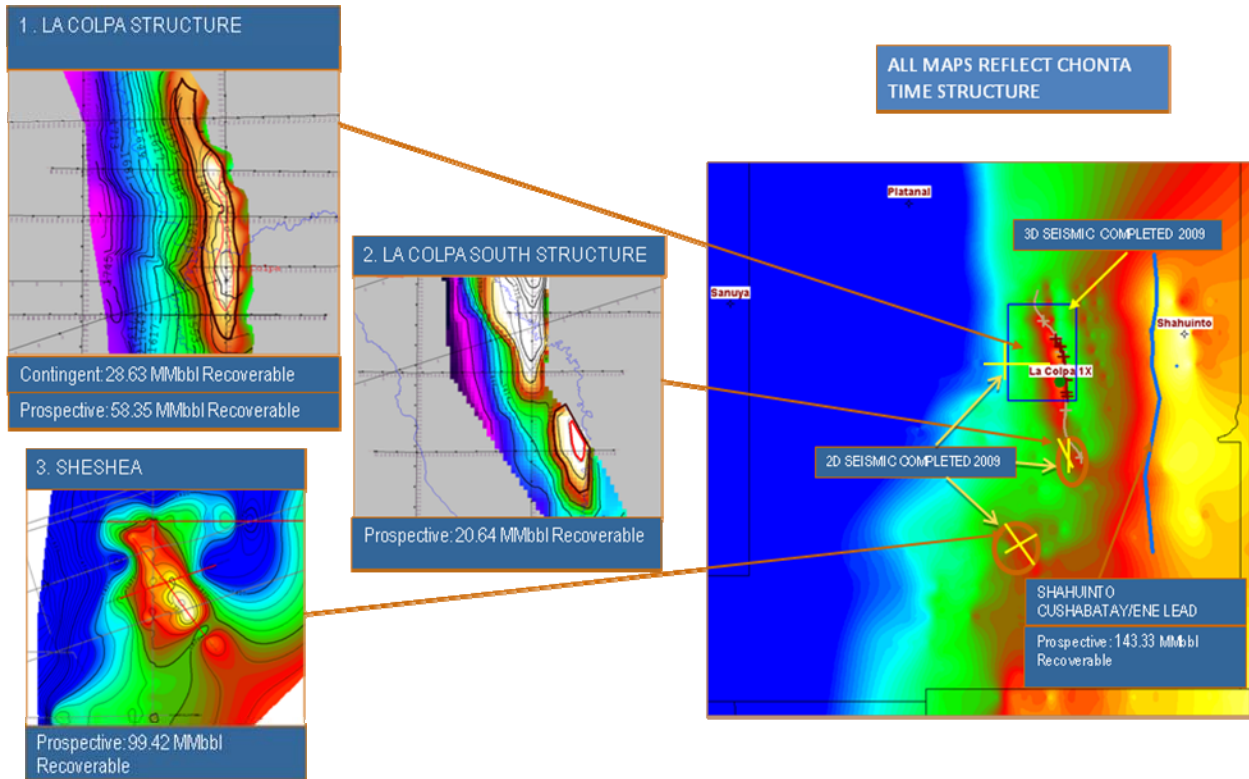
<b>Name</b>	<b>Low Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>Best Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>High Estimate (Mmbbl)<sup>(3)(4)</sup></b>
La Colpa Structure			
Gross Lease <sup>(1)</sup>	3.47	58.35	157.01
Gross Company <sup>(2)</sup>	0.69	11.67	31.40
La Colpa South Structure			
Gross Lease <sup>(1)</sup>	4.08	20.64	47.57
Gross Company <sup>(2)</sup>	0.82	4.13	9.51
Poco La Colpa Structure			
Gross Lease <sup>(1)</sup>	0.78	7.27	18.58
Gross Company <sup>(2)</sup>	0.16	1.45	3.72
Sheshea Structure			
Gross Lease <sup>(1)</sup>	5.27	99.42	266.07
Gross Company <sup>(2)</sup>	1.05	19.88	53.21
Shahuinto Cushabatay/Ene Lead			
Gross Lease <sup>(1)</sup>	13.33	143.33	638.71
Gross Company <sup>(2)</sup>	2.67	28.67	127.74
<b>TOTAL<sup>(5)</sup></b>			
<b>Gross Lease<sup>(1)</sup></b>	26.93	329.01	1,127.94
<b>Gross Company<sup>(2)</sup></b>	5.99	65.80	225.40

Notes:

- (1) Represents an estimate of the Corporation's and Petrominerales Peru's 100% interest in the resources before deduction of royalties and without including any royalty interests.
- (2) Represents an estimate of the Corporation's 20% working interest in the resources before deduction of royalties and without including any royalty interests.
- (3) Estimates of prospective resources have been made by the Corporation using the Rose Technique.

- (4) There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.
- (5) The aggregate of the low estimate, best estimate and high estimate cases for the prospective resources attributed to the individual La Colpa, La Colpa South, Poco La Colpa and Sheshea structures and the Shahuinto Cushabatay/Ene Edge lead may not reflect the same confidence level as the low estimate, best estimate and high estimate cases for the prospective resources for all of such structures and lead due to the effects of aggregation.

The following illustrations identify the best estimate of the gross combined 100% interest of the Corporation and Petrominerales Peru in the resources attributed to the La Colpa, La Colpa South and Sheshea structures by management of the Corporation.



### **Block 141**

In early 2011, the Corporation undertook to estimate the resource potential of Block 141. Following a detailed examination of the limited data available, prospective resource estimates were generated for the Central Fault Block, Northeast Pinch-out, Southwest Thrust and Southern Structural/Pinch-out prospects on Block 141. The following table summarizes such prospective resource estimates as of February 1, 2011:

<b>Name</b>	<b>Low Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>Best Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>High Estimate (Mmbbl)<sup>(3)(4)</sup></b>
Central Fault Block Prospect			
Gross Lease <sup>(1)</sup>	5.0	81.1	217.8
Gross Company <sup>(2)</sup>	1.0	16.2	43.6
NE Pinch-out Prospect			
Gross Lease <sup>(1)</sup>	6.4	46.0	113.2
Gross Company <sup>(2)</sup>	1.3	9.2	22.6
SW Thrust Prospect			
Gross Lease <sup>(1)</sup>	9.2	77.7	196.3
Gross Company <sup>(2)</sup>	1.8	15.6	39.3

<b>Name</b>	<b>Low Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>Best Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>High Estimate (Mmbbl)<sup>(3)(4)</sup></b>
Southern Structural Pinch-out Prospect			
Gross Lease <sup>(1)</sup>	6.0	71.0	186.6
Gross Company <sup>(2)</sup>	1.2	14.2	37.3
<b>TOTAL<sup>(5)</sup></b>			
<b>Gross Lease(1)</b>	26.6	275.9	713.9
<b>Gross Company(2)</b>	5.3	55.2	142.8

Notes:

- (1) Represents an estimate of the Corporation's and Petrominerales Peru's 100% interest in the resources before deduction of royalties and without including any royalty interests.
- (2) Represents an estimate of the Corporation's 20% working interest in the resources before deduction of royalties and without including any royalty interests.
- (3) Estimates of prospective resources have been made by the Corporation using the Rose Technique.
- (4) There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.
- (5) The aggregate of the low estimate, best estimate and high estimate cases for the prospective resources attributed to the individual Central Fault Block, NE Pinch-out, SW Thrust and Southern Structural/Pinch-out prospects may not reflect the same confidence level as the low estimate, best estimate and high estimate cases for the prospective resources for all of such prospects due to the effects of aggregation.

### ***Block 161***

In early 2011, the Corporation also undertook to estimate the resource potential of Block 161. Following a similar detailed examination of the data available, prospective resource estimates were generated for the Pisqui Subcrop prospect on Block 161. The following table summarizes such prospective resource estimates as of February 1, 2011.

<b>Name</b>	<b>Low Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>Best Estimate (Mmbbl)<sup>(3)(4)</sup></b>	<b>High Estimate (Mmbbl)<sup>(3)(4)</sup></b>
Pisqui Subcrop Prospect			
Gross Lease <sup>(1)</sup>	2.7	47.9	129.3
Gross Company <sup>(2)</sup>	0.5	9.6	25.9
<b>TOTAL</b>			
<b>Gross Lease<sup>(1)</sup></b>	2.7	47.9	129.3
<b>Gross Company<sup>(2)</sup></b>	0.5	9.6	25.9

Notes:

- (1) Represents an estimate of the Corporation's and Petrominerales Peru's 100% interest in the resources before deduction of royalties and without including any royalty interests.
- (2) Represents an estimate of the Corporation's 20% working interest in the resources before deduction of royalties and without including any royalty interests.
- (3) Estimates of prospective resources have been made by the Corporation using the Rose Technique.
- (4) There is no certainty that any portion of the prospective resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the prospective resources.

### ***Methodology***

The Corporation's internal resource estimates for both the contingent and prospective resources are based on a probabilistic analysis using the Rose Technique, a methodology commonly used to estimate resources.

### ***Block 126***

In the evaluation of Block 126 the Corporation conducted a petrophysical evaluation of the existing geological well logs from the La Colpa 1X, Platanal 1X and Shahuinto 1X wells to establish the range in reservoir parameters (porosity, net pay and water saturation) to be used for the Rose Technique. The final parameter input to the Rose Technique for both the contingent and prospective resource estimates for the La Colpa structure, the area of the reservoir, was initially based upon the Corporation's reinterpretation of the Existing 2D Seismic Data and then

amended to include new information provided from the 3D seismic program completed in late December 2009. The parameters for the Corporation's estimates of the prospective resources of the La Colpa South, Poco La Colpa and Sheshea structures and the Shahuinto Cushabatay/Ene Edge lead were initially based upon the reprocessed Existing 2D Seismic Data and amended to include new information provided from the 3D and 2D seismic programs completed in late December 2009 and upon reliance on certain of the parameters applicable to the La Colpa structure for which well logs are available. Since there are no nearby producing wells, a broad range of recovery factors was required to be used.

Once a range of values for the parameters applicable to the La Colpa, Poco La Colpa, La Colpa South and Sheshea structures and the Shahuinto Cushabatay/Ene Edge lead was estimated from the available data, the Corporation used a lognormal size distribution procedure to derive low estimate, best estimate and high estimate resource values. The low estimate, best estimate and high estimate values are derived by assuming a lognormal probability distribution, which is commonly accepted by the oil and gas industry to reflect the distribution of pool sizes.

There are a number of contingencies and risks that must be satisfied or met before the contingent resources on the La Colpa Structure estimated by management can be classified as reserves, including:

1. adequate well testing of the formation is required to confirm:
  - (a) commercial productivity;
  - (b) reservoir fluid properties;
  - (c) reservoir rock permeability; and
  - (d) oil/water contact;
2. confirmation of the ability to transport crude oil to market;
3. confirmation of a market for the crude oil; and
4. determination of economic viability.

Significant negative factors related to the resources estimate include: (i) a lack of infrastructure and transportation in the Block 126 area; (ii) the limited drilling history and success in the Block 126 area; (iii) the relinquishment requirements under the Block 126 License; and (iv) the capital expenditures and financing required for the Corporation to satisfy its obligations under the Block 126 License and its proposed drilling and exploration program. See "Block 126 History" and "Transportation and Infrastructure" under "Description of Block 126", "Block 126 License – Relinquishment Rights", "Infrastructure Requirements" and "Drilling Costs, Timing and Availability of Services" under "Exploration and Development Plans", and the other factors set forth herein, including under "Risk Factors".

### ***Block 141***

As described above, the Corporation used the Rose Technique to generate resource estimates for Block 141. It is apparent from the values generated that there is a greater range of estimates between the low, best and high case potential on Block 141 as compared to the resource estimates for Block 126. This increased variation is a function of the lack of information and data for the Block and the resulting larger range of outcomes that had to be anticipated and therefore input into the modelling underlying the resource estimates. As there is no existing seismic data and there has been no drilling on the Block, the Corporation relied on an existing gravity and magnetics survey and on outcrop information from the area to derive the inputs to the Rose analysis. Although useful, gravity and magnetics surveys do not provide the level of structural and stratigraphic detail that seismic data does. Similarly, although valuable in establishing whether a petroleum system might exist, outcrop data does not necessarily reveal the subtleties of the subsurface geology. Oil and natural gas seeps in the area of Block 141 suggest there is a well

developed petroleum system, but additional information is needed to accurately determine the size, structure and other material characteristics of the reservoir. A new seismic acquisition program for Block 141 is currently planned for 2012. See "Block 141 – Block 141 Exploration Plans".

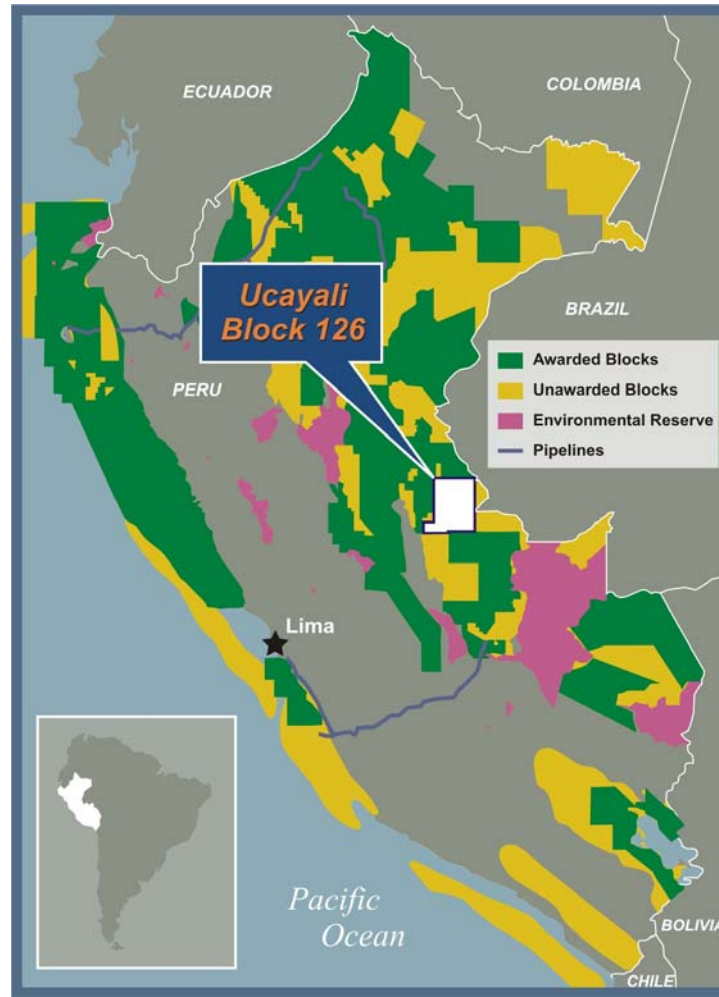
Significant factors potentially negatively impacting the Block 141 resources estimate include: (i) a lack of geological and geophysical information on Block 141; (ii) the lack of drilling history in the Block 141 area; (iii) the relinquishment requirements under the Block 141 License, which are comparable to those under the Block 126 License; (iv) the capital expenditures required for the Corporation to satisfy its obligations under the Block 141 License and its proposed drilling and exploration programs and whether that capital will be available; and (v) potential opposition of local residents to the work programs proposed. See "Risk Factors".

### ***Block 161***

As described above, the Corporation used the Rose Technique to generate resource estimates for Block 161. As is the case for Block 141, it is apparent from the values generated that there is a greater range of estimates between the low, best and high case potential on Block 161 as compared to the resource estimates for Block 126. This increased variation is a function of the lack of information in the area and the resulting larger range of outcomes that had to be anticipated and inputted into the modelling underlying the resource estimates. Although there is existing seismic and drilling information on this Block, the drilling took place in the late 1940s and early 1950s on the highest point on the Pisqui structure, which is east of a wedge of sediment that the Corporation believes has excellent potential from a trapping perspective. Accordingly, there is little information regarding the nature of the sediments that comprise the wedge and there is therefore uncertainty whether reservoir rocks exist in this area and if they do, what kind of permeabilities and porosities could be expected. A new seismic program, anticipated to be undertaken in 2012, will help resolve some of the issues regarding reservoir distribution but ultimately the drilling of a well will be required to establish the potential of the area. See "Block 161 – Block 161 Exploration Plans".

Significant factors potentially negatively impacting the Block 161 resources estimate include: (i) a lack of geological and geophysical information on Block 161; (ii) the lack of drilling history in the area of Block 161 currently being targeted by the Corporation; (iii) the relinquishment requirements under the Block 161 License, which are similar to those under the Block 126 License; (iv) the capital expenditures required for the Corporation to satisfy its obligations under the Block 161 License and its proposed drilling and exploration programs and whether that capital will be available; and (v) potential opposition of local residents to the work programs proposed. See "Risk Factors".

## DESCRIPTION OF BLOCK 126



### General

The Corporation has a 20% participating interest in Block 126 pursuant to the Block 126 License and is authorized to carry out exploration and exploitation activities for the purpose of discovering and producing hydrocarbons from Block 126. Block 126 is comprised of approximately 1.1 million gross (0.22 million net) hectares of land and spans portions of the Provinces of Coronel Portillo and Atalaya in the Ucayali region of east central Peru. Block 126 is situated in the Amazon River drainage basin and consists primarily of jungle covered, rolling topography. It is situated in the Ucayali Basin, one of the eighteen sedimentary basins currently recognized by Perupetro in Peru. It is bounded on the east by the border with Brazil and on the west by the Ucayali River, which flows along the eastern flanks of the Andes Mountains. See "*Block 126 License*".

In conjunction with entering into the Block 126 License, the Corporation was granted full access to all existing geological, geophysical and engineering information in respect of Block 126, including the Existing 2D Seismic Data. Three wells have been drilled on Block 126 to date, all by previous holders of interests in the area that now comprises Block 126. Two of these wells were abandoned and the third, the La Colpa 1X well, drilled into the La Colpa Structure, is standing plugged and temporarily abandoned, having tested hydrocarbons. See "*Description of Block 126 - Block 126 History*".

## **Block 126 History**

Hispanoil, a Spanish state-owned oil company, initiated exploration on the area that is now Block 126 in 1974 with the acquisition of 1800 km of seismic data. No wells were drilled in the area that is now Block 126 at that time.

In 1986, Occidental negotiated a contract for Block 36 (now comprising part of Block 126) and spent approximately \$20 million acquiring approximately 800 km of 2D seismic data, building access roads, and drilling two wells: La Colpa 1X and Platanal 1X. The La Colpa 1X well, situated approximately in the middle of Block 126, tested oil from the Cretaceous Agua Caliente formation, the Permian dolomites of the Copacabana group and sandstones of the Permian Tarma Group, including the Green Sandstone formation. Formation tests in the La Colpa 1X well included two open hole drill stem tests and nine cased hole drill stem tests. The well is currently standing plugged and temporarily abandoned.

In 1997, Pangea Oil Corporation spent, as estimated by management of the Corporation, approximately \$10 million shooting an additional 562 km of seismic and drilling the Shahuinto 1X well, located approximately 30 km east of the La Colpa 1X well, on Block 71 (now comprising part of Block 126). The Shahuinto 1X well did not test hydrocarbons and was abandoned. Following completion of the drilling of the Shahuinto 1X well, Pangea Oil Corporation relinquished its right to explore on Block 71.

The Corporation signed the Block 126 License with the Peruvian Government in October 2007. After reprocessing and reinterpreting the Existing 2D Seismic Data, the Corporation committed to acquire an additional 50 km of 2D seismic and 150 km<sup>2</sup> of 3D seismic data, which was completed in December 2009.

## **Leads on Block 126**

From the Existing 2D Seismic Data reprocessed and reinterpreted to date, the Corporation identified the La Colpa, Poco La Colpa, La Colpa South and Sheshea structures and the Shahuinto Cushabatay/Ene Edge lead in Block 126, each of which is described below. The results of this initial work led to the decision to acquire 150 km<sup>2</sup> of 3D seismic and an additional 50 km of 2D seismic over the La Colpa, La Colpa South and Sheshea structures. The Corporation also identified 14 additional structural and stratigraphic leads from the Existing 2D Seismic Data. See "*Resources Estimates – Internal Resource Estimates*".

### ***La Colpa Structure***

The La Colpa Structure is a southeast/northwest trending high located in the central portion of Block 126. The Existing 2D Seismic Data demonstrated a fault closure along strike to the northwest of the La Colpa 1X well and in the updip, easterly direction and a less defined structural closure to the south, possibly a fault. The 3D seismic was acquired over this structure to demonstrate more accurately the structural character of La Colpa and to confirm fault closure between La Colpa and La Colpa South; the 3D seismic has confirmed that there is fault closure to the south. From the seismic data management of the Corporation estimates the feature is approximately 26 km long and 5 km wide, with a vertical relief of approximately 350 m. The key zones of interest on the La Colpa structure are the Cretaceous Agua Caliente and Cushabatay sandstones, the Permian Ene sandstones, the Permian Copacabana carbonates, and the Permian Green sandstone of the Tarma Group. With the exception of the Cushabatay/Ene zone, which was not tested, all of these zones tested oil in the La Colpa 1X well. The management prepared resource estimates disclosed above reflect these tests and are a combined estimate of the Agua Caliente, Cushabatay/Ene and Green Sandstone potential.

Based on the Corporation's analysis of the La Colpa 1X well logs, management of the Corporation believes there is bypassed pay in the Cushabatay/Ene interval which was not tested and this forms the basis for the Cushabatay/Ene Edge lead. The Cushabatay/Ene Edge lead will test an interpreted stratigraphic termination of the Cushabatay/Ene interval near the top of the La Colpa Structure. The Ene, one of the key producing formations in the Camisea field to the south, has 3 m of hydrocarbon potential, with no water evident, based on the logs of the La Colpa 1X well. This interval was not tested by the previous operators. The rest of the sands in the interval demonstrate no reservoir potential and are considered indicative of the proximity to the stratigraphic termination of this horizon. Reinterpretation of the Existing 2D Seismic Data indicates the thickening of the Cushabatay/Ene sand interval to the west, off of the main La Colpa Structure. This suggests the potential for a greater pay interval downdip from the La Colpa 1X well. The interpretation of the Existing 2D Seismic Data is supported by the thicker Ene sand package

evident in the well logs of the Platanal 1X well, situated to the north of the La Colpa 1X well. The new 3D seismic confirmed the stratigraphic interpretation and was instrumental in choosing the locations for the Corporation's anticipated 2011 drilling program. See "*Resources Estimates – Internal Resource Estimates*".

### ***La Colpa South Lead***

There is an additional separate structure associated with the main La Colpa Structure. Two new lines of 2D seismic confirmed that this structure is separated from the La Colpa Structure by a fault. Although structurally not as high as the La Colpa Structure, management of the Corporation believes that there is potential for this anomaly to have a different oil/water contact due to the fault separation and hence to be hydrocarbon charged. This anomaly is the basis for the La Colpa South lead. The key zones of interest are the Cretaceous Casablanca, Vivian and Agua Caliente formations, the Permian Ene clastics and Copacabana carbonates, and the Permian Green sandstone formation of the Tarma Group. See "*Resources Estimates – Internal Resource Estimates*".

### ***Poco La Colpa Lead***

This is a structure situated west and downdip of the La Colpa (Main) structure. The Existing 2D Seismic Data suggested there was a closure on this structure which was confirmed by the new 3D seismic. Although situated structurally lower than the La Colpa (Main) lead, this anomaly, because of the closure demonstrated on the 3D seismic, may demonstrate a different oil/water contact and hence be hydrocarbon charged. The key zones of interest are the Cretaceous Casablanca, Vivian and Agua Caliente formations, the Permian Ene clastics and Copacabana carbonates, and the Permian Green sandstone formation of the Tarma Group. See "*Resources Estimates – Internal Resource Estimates*".

### ***Sheshea Lead***

The Sheshea lead is situated on a structural high in the southern portion of Block 126. Based on the Existing 2D Seismic Data, management of the Corporation believes that this southeast/northwest trending feature is related to a deep-seated, Pre-Cambrian feature. This was a positive feature during the depositional history of Block 126 and presents the possibility of a stratigraphy, unique from the surrounding area, having been deposited and preserved. Reservoirs are anticipated in the sandstones of the Upper Cretaceous Casablanca and Vivian formations, the Lower Cretaceous Chonta and Agua Caliente sandstones, clastics of the Ene formation and the carbonates and sandstones of the Copacabana formation and Tarma Group. Although not evident in other wells on Block 126, the Devonian Cabanillas may be preserved because of the unique nature of this structure. The Existing 2D Seismic Data suggested structural dip closure in all directions except to the southeast, where seismic coverage did not extend sufficiently to delineate the southern limit. Two new lines of 2D seismic confirmed a fault on the southern edge of the structure, the closed nature of this structure and that the structure was higher than initially contemplated. See "*Resources Estimates – Internal Resource Estimates*".

### ***Shahuinto Cushabatay/Ene Edge Lead***

The Shahuinto structure is situated east of the La Colpa (Main) structure and appears to have a similar tectonic history to La Colpa. The basis of this lead is similar to the Cushabatay/Ene Edge concept discussed under the heading "La Colpa Structure". Reprocessing and reinterpretation of the Existing 2D Seismic Data demonstrates a thick wedge of sediment was deposited against the Shahuinto structure and there is potential to trap hydrocarbons as the wedge thins against the high.

## **Transportation and Infrastructure**

Energy infrastructure, including pipelines to transport natural gas, oil and other liquid hydrocarbons, has not yet reached Block 126. The La Colpa 1X well suggests this area is more prone to oil accumulation than natural gas and NGLs. Accordingly, in the event of a commercial oil discovery, planning of a pipeline route from the La Colpa 1X well area on Block 126 to Nueva Italia on the Ucayali River would begin immediately. The timing and costs associated with building such a pipeline are beyond the scope of the Corporation's current planning and evaluations. Additionally, a supplementary EIA would be required to plan and build any such pipeline route. Accordingly, if it is ultimately successful in finding, developing and producing hydrocarbons on Block 126, the Corporation anticipates that it will initially transport production via trucks to Nueva Italia.

Once production reaches Nueva Italia, the Corporation proposes that it would be transported to market via barge on the Ucayali River to refineries in Pucallpa or Iquitos, located approximately 150 km and 700 km, respectively, away by river, or to Station One of the North Peruvian Pipeline (the "NPP") at San Jose de Saramuro, a distance of approximately 1,000 km away by river. As there is limited refining capacity currently available at Pucallpa (less than 1,000 bbl/d) and Iquitos (less than 500 bbl/d), it is likely that the Corporation, if it is ultimately successful in finding, developing and producing hydrocarbon on Block 126, would barge any production to the NPP. The NPP has a capacity of 200,000 bbl/d, with current available capacity of approximately 160,000 bbl/d.

The Corporation has discussed barging as a means of transporting production with three companies operating oil barges on rivers in Peru. At the present time these companies have limited available capacity, but have indicated that additional barging capacity is currently being planned.

## **BLOCK 126 LICENSE**

### **General**

The Block 126 License was originally entered into between Perupetro, Veraz Peru and True Energy Peru on October 23, 2007. The effective date of the Block 126 License is December 23, 2007 (the "**Effective Date**"). Pursuant to the Block 126 License, Veraz Peru was initially granted a 90% participating interest and True Energy Peru was granted a 10% participating interest in Block 126. On November 19, 2008, Veraz Peru entered into the Purchase and Sale Agreement with Petrominerales Peru pursuant to which Petrominerales Peru acquired a 45% working interest in Block 126 from the Corporation. Concurrent with this transaction, Petrominerales Peru also acquired True Energy Peru's 10% working interest in Block 126. Upon being approved as a qualified contractor by Perupetro on August 25, 2009 and concurrent with the closing of the Petrominerales Purchase on December 4, 2009, Petrominerales Peru replaced True Energy Peru and True Energy Inc. as operator and guarantor of the Block 126 License. Veraz Peru and Petrominerales Peru are jointly and severally liable for their obligations under the Block 126 License, other than tax obligations, for which they are severally liable, and financial obligations, for which they are each responsible commensurate to their respective participating interests in Block 126. Veraz Peru and Petrominerales Peru are authorized by Perupetro to carry out exploration and exploitation activities for the purpose of discovering and producing hydrocarbons from Block 126. The Block 126 License is governed by Peruvian law.

On October 13, 2010, the Corporation and Veraz Peru entered into agreements with Petrominerales Ltd. and Petrominerales Peru pursuant to which Petrominerales Peru acquired from Veraz Peru a further 25% interest in Block 126, resulting in Petrominerales Peru and Veraz Peru holding 80% and 20% participating interests, respectively, in Block 126. In consideration for the assignment of such 25% interest, (i) the Corporation received a cash payment of USD\$2,250,000, (ii) Petrominerales Peru is required to assume and pay certain costs and expenses of Veraz Peru under the Joint Operating Agreement corresponding to its remaining 20% interest in Block 126, to a maximum of USD\$4.5 million, and (iii) for every 4 million barrels of gross production from Block 126, Petrominerales Peru shall pay Veraz Peru a bonus payment of USD\$2 million, up to a maximum USD\$8 million. In addition, subject to obtaining all requisite approvals of the Peruvian government, which are anticipated to be received by the end of 2011, Veraz Peru was granted a 20% participating interest in each of Block 141 and Block 161.

### **Operator**

Petrominerales Peru is designated as the "Operator" under the Block 126 License. In its role as Operator, Petrominerales Peru represents itself and Veraz Peru for the purposes of carrying out their exploration and exploitation obligations under the Block 126 License. Any change to the Operator must be consented to in writing by Perupetro, such consent not to be unreasonably withheld. See "*Block 126 License - Joint Operating Agreement*".

Originally the Corporation did not meet the technical and financial criteria required under applicable Peruvian law to qualify as the Operator under the Block 126 License. Veraz Peru's qualification to commence negotiations for Block 126 was granted on the basis of the commitment made by True Energy Inc. to be associated with Veraz and to provide Veraz with technical, administrative and corporate support in its capacity as Operator under the Block 126 License. Petrominerales Ltd. assumed this commitment when it acquired True Energy Peru's interest in Block 126. Since then, although Petrominerales Peru continues to act as Operator, the Corporation has satisfied the criteria to act in such capacity should Petrominerales Peru withdraw as Operator under the Block 126 License.

## Term

The term of the Block 126 License is divided into an exploration phase and an exploitation phase. The term of the exploration phase is seven years from the Effective Date, and may be extended or otherwise modified in accordance with applicable law.

The exploration phase is divided into the following four periods (the "**Exploration Phase Periods**"), with each exploration period having a minimum work program that must be completed to maintain the Block 126 License:

- (a) the First Exploration Period;
- (b) the Second Exploration Period;
- (c) the Third Exploration Period; and
- (d) the Fourth Exploration Period.

The Contractors are entitled to apply for extensions of not more than six months to any Exploration Phase Period if it is unable to complete the minimum work program for such Exploration Phase Period for technical or economic reasons. The Contractors are also entitled to move from one Exploration Phase Period to the next Exploration Phase Period upon providing Perupetro with written notice at least thirty (30) days prior to the expiration of the then current Exploration Phase Period, provided that the minimum work program for such Exploration Phase Period has been fully completed. Pursuant to the Hydrocarbons Law, the Contractors may obtain a three year extension to the exploration phase of the Block 126 License, provided they have fully complied with the minimum work programs for the four Exploration Phase Periods in the exploration phase. See "*Block 126 License - Exploration*".

If during the exploration phase, the Contractors discover hydrocarbons which are non-commercial only for reasons of transportation, the Contractors may request a retention period of up to five years in order to make transportation feasible. The Contractors may also request a retention period of up to ten years if it discovers non-associated natural gas or non-associated natural gas and condensates during the exploration phase for purposes of developing the market. Any such retention period granted by Perupetro will extend the term of the Block 126 License by an equivalent number of years. The exploration phase ends once a retention period begins.

Provided the Contractors make a commercial discovery prior to the expiration of the exploration phase, the term of the exploitation phase begins on the date following completion of the exploration phase (including any extension thereof) and, subject to modification in accordance with the provisions of the Block 126 License, expires on the date that occurs 30 years from the Effective Date in the case of a petroleum discovery. In the event of a commercial discovery of non-associated natural gas and/or condensates, the term of the exploitation phase will expire on the date that occurs 40 years from the Effective Date. If a commercial discovery is not made prior to the expiration of the exploration phase under the Block 126 License, and a retention period has not been requested or granted, the Block 126 License will terminate at the end of the exploration phase.

## Exploration

The Block 126 License provides for a minimum work program that must be completed for each Exploration Phase Period in accordance with its terms. The minimum work programs are expressed in EWUs or specific work required to be completed by the Contractors. EWUs are numeric values that represent the exploration activity the Contractors have agreed to undertake in the minimum work programs under the Block 126 License. Each Ewu is assigned a value of \$5,000 in connection with the guarantees described below and is representative of and determined on the basis of the exploration activity carried on by the Contractors, as follows:

<u>Activity</u>	<u>EWUs</u>
2D seismic (km)	1.00
3D seismic (km <sup>2</sup> )	3.00
2D reprocessing (km)	0.02
Gravimetry (km)	0.02

Magnetometry (km)	0.02
Studies per Exploration Phase Period	20.00
Wells Drilled (m)	
0 - 1,000	0.10 x m
1,001 - 2,000	0.13 x m
2,001 - 3,000	0.18 x m
3,001 - 4,000	0.22 x m
over 4,001	0.25 x m

The minimum work program for each of the Exploration Phase Periods under the Block 126 License is as follows:

- (a) During the First Exploration Period, the Corporation is required to complete 40 EWUs or the reprocessing and reinterpretation of 1,000 km of seismic lines and a comprehensive geological study of the area;
- (b) During the Second Exploration Period, the Corporation is required to complete 500 EWUs or the drilling of two exploratory wells or confirmation wells, with one well having a depth of 2,400 m and the other well being horizontal and having a vertical depth of 1,500 m with a 300 m horizontal segment;
- (c) During the Third Exploration Period, the Corporation is required to complete 250 EWUs or the drilling of one exploratory well; and
- (d) During the Fourth Exploration Period, the Corporation is required to complete 250 EWUs or the drilling of one exploratory well.

EWUs resulting from 2D or 3D seismic work or from drilling exploratory wells carried out in excess of the minimum work program during any Exploration Phase Period may be included in the EWUs to be performed in subsequent Exploration Phase Periods. Exploratory wells drilled in the Third Exploration Period and Fourth Exploration Period shall be deemed drilled once the Contractors reach the earlier of (i) a minimum vertical depth of 2,000 m from the surface, or (ii) a minimum of 100 m into the basement. The term basement is used in this context to describe the granitic basement or Pre-Cambrian aged strata at which point there are typically volcanic or metamorphic rocks as opposed to the clastics and carbonates that are evident in younger lithologies.

The minimum work programs for the First Exploration Period and the Second Exploration Period have been completed. Veraz Peru and Petrominerales Peru satisfied their obligations under the First Exploration Period by reprocessing and reinterpreting 1,000 km of 2D seismic and completing a comprehensive geological study of Block 126 at a cost of approximately \$250,000 (\$225,000 net to Veraz Peru). Veraz Peru and Petrominerales Peru satisfied the minimum work program under the Second Exploration Period by completing the acquisition and reprocessing of an additional 150 km<sup>2</sup> of 3D seismic and 50 km of 2D seismic at a gross cost of USD\$11,235,860 (\$5,056,137 net to Veraz Peru). The Corporation has filed a detailed geological and geophysical report with Perupetro and the Third Exploration Period began in December 2010. See "*Exploration and Development Plans*" for a description of the Corporation's plans with respect to the Third Exploration Period.

## **Exploitation**

If the Contractors make a commercial discovery before the end of the exploration phase, it must notify Perupetro of such commercial discovery and provide Perupetro with an initial development plan for the exploitation phase under the Block 126 License setting forth, among other things, the estimated date of commencement of commercial extraction, the characteristics of the hydrocarbons discovered, the number of producing wells and their production capacity, details of any plans to build a main pipeline that will transport hydrocarbons to a production sales point or to a third party pipeline or an export point, all transportation and storage systems required to transport hydrocarbons produced from Block 126 to a production sales point, to any main pipeline constructed by the Contractors or to a third party pipeline, and an estimate of the investments and costs and expenses required to exploit the commercial discovery made. If the Contractors make a commercial discovery before the end of the exploration phase, their obligations with respect to the development of such commercial discovery are in addition to their obligations under the then current Exploration Phase Period.

Once the exploitation phase has commenced, the Contractors are required to submit to Perupetro, prior to the end of each calendar year, an annual work program and a detailed budget for: (i) the development plan for the following calendar year, (ii) the exploration work required to discover additional reserves, and (iii) the development and/or production work to be completed in the following five calendar years. The Contractors must comply with the work program submitted to Perupetro.

### **Supervisory Committee**

Pursuant to the Block 126 License, the Contractors and Perupetro have established a supervisory committee comprised of three representatives of the Contractors and three representatives of Perupetro (the "**Supervisory Committee**"). The role of the Supervisory Committee is to discuss information relating to operations, to evaluate the work plans and their implementation, and to verify the performance of operations and assist with the resolution of any disputes between the parties.

### **Guarantees**

Veraz Peru and Petrominerales Peru have agreed to guarantee the fulfillment of the minimum work program for each Exploration Phase Period through a joint and several, unconditional and irrevocable bank guarantee issued by a duly qualified Peruvian financial institution acceptable to Perupetro, as follows:

- (a) First Exploration Period: USD\$200,000;
- (b) Second Exploration Period: USD\$2,500,000;
- (c) Third Exploration Period: USD\$1,250,000; and
- (d) Fourth Exploration Period: USD\$1,250,000.

Each bank guarantee must be delivered to Perupetro before the commencement of each Exploration Phase Period. If the term of an Exploration Phase Period is extended the Contractors are required to provide a new guarantee to Perupetro. Perupetro may enforce a guarantee if the Contractors fail to comply with their obligations under the minimum work program for any Exploration Phase Period, unless Perupetro accepts such non-compliance in accordance with the terms of the Block 126 License. The failure of the Contractors to comply with their obligations under the minimum work program for any Exploration Phase Period will also result in the termination of the Block 126 License. The Contractors have recently posted the bank guarantee required to secure the work commitment for the Third Exploration Period.

In addition, Petrominerales Ltd. has executed a corporate guarantee in favour of Perupetro guaranteeing the performance by the Contractors of their obligations under the minimum work program and the annual exploration program for each Exploration Phase Period.

### **Royalty**

Under the Block 126 License, Veraz Peru and Petrominerales Peru have agreed to pay a cash royalty calculated as a percentage of the value of the production of hydrocarbons from Block 126. The royalty rates applicable in Peru and payable on production under the Block 126 License may be determined in one of two ways at the election of the Contractors. One method is based on production levels. The second method is based on the economic results of operations on Block 126. Once the Contractors declare a commercial discovery, they must elect one of these royalty schemes (which cannot be changed) to determine their future royalty payments.

When royalties are based on production levels, the minimum royalty payable by the Contractors is 5% on production of less than 5,000 bbl/d of crude oil, and the maximum royalty payable is 20% on production of 100,000 bbl/d or more of crude oil. A linear interpolation is applied to production levels between these two end points to determine the applicable royalty rate.

The second method of calculating royalties under the Block 126 License is described as the methodology based on the economic result (RRE). Under this royalty calculation, the applicable royalty is the sum of a 5% fixed royalty plus a variable royalty percentage. The variable royalty percentage may vary from 0% to a maximum of 20%, such that the combined maximum economic result royalty is 25%.

Royalties must be paid in U.S. dollars by the second business day following the end of the applicable valuation period. If the Contractors fail to pay any part of the royalty when due, Perupetro may immediately withhold any or all production volumes necessary to recover the amount due plus any applicable interest.

Since the royalty rates payable by the Contractors have been agreed to by the parties to the Block 126 License, such royalty rates cannot be unilaterally changed by Perupetro. Furthermore, pursuant to Article No. 62 of the Peruvian Constitution, which prohibits contract terms from being modified by law or other dispositions of any kind, the agreed royalty rates cannot be modified by Peruvian law or regulation.

### **Taxes**

Veraz Peru and Petrominerales Peru are each subject to the Peruvian general tax regime and the tax rules contained in the Hydrocarbons Law. The Peruvian government, through the Ministry of Economy and Finance, guarantees the benefit of tax stability for the operations carried out under the Block 126 License during its term under the *Regulations Governing the Tax Stability Guaranty and the Tax Rules of the Organic Hydrocarbons Law No. 26621* approved by Supreme Decree No. 32-95EF and other applicable Peruvian laws and regulations. Thus, the Contractors are subject only to the tax regime in force at the time the Block 126 License was entered into. The benefits arising from this tax stability regime apply only to the activities under the Block 126 License. If economic activities other than activities under the Block 126 License are carried out, the proceeds of the activities under the Block 126 License will not be subject to the benefit of tax stability or the guarantee of such benefit by the Peruvian government.

Peruvian income tax will be levied on the worldwide net income of Veraz Peru, at a rate of 30% in accordance with applicable Peruvian tax law. Dividends and other forms of distribution of profits received by Veraz from Veraz Peru will be subject to a 4.1% income tax rate. The tax stability guarantee will apply to all of the shareholders of Veraz Peru with respect to income from dividends or any other form of distribution of profits derived from the Block 126 License.

Veraz Peru and Petrominerales Peru are each required to use the linear amortization method for a five year term, beginning on the date when commercial extraction of hydrocarbons starts. The linear amortization applies to all exploration and development expenses and to all investments made by the Contractors from the date the Block 126 License was signed until initial commercial extraction occurs. The amortization period can be extended as agreed with Perupetro if after the election of the linear amortization method the financial statements of either Veraz Peru or Petrominerales Peru show a negative result or a tax loss which may not be offset for tax purposes pursuant to the tax rules in force. Prior to any extension of the amortization period, the Peruvian National Superintendency of Tax Administration is required to be notified in order to obtain its approval. Any such extension may not extend beyond the term of the Block 126 License and must be included in the Block 126 License. In the event the exploration phase under the Block 126 License continues after the date of commencement of commercial extraction, the linear amortization method will apply from the date of commencement of commercial extraction.

The Contractors may temporarily import, for a two year term beginning upon their arrival in Peru, any equipment and goods required for their activities under the Block 126 License without paying import duties or taxes, provided that such goods and equipment are included in the applicable list of tax-exempt goods under Peruvian law. The Contractors are also entitled to request from Perupetro, a maximum of two times, the extension of this benefit for one year periods.

### **Foreign Exchange**

The Central Reserve Bank of Peru intervenes in the Block 126 License for the limited purpose of guaranteeing that the Contractors will enjoy the exchange regime in force on the date the Block 126 License was signed throughout the term of the Block 126 License. The Contractors may convert local currency obtained from their sales of hydrocarbons to the domestic market into foreign currency, and have the right to directly deposit both foreign and

local currency into any of its bank accounts in or outside of Peru. The Contractors are required to convert local currency to foreign currency through the facilities of the financial system established in Peru. The Contractors are further entitled to the benefit of any new legal exchange provisions issued during the term of the Block 126 License.

### **Environmental Liabilities**

The Contractors are obligated to comply with the provisions set out in *Law No. 28611, Environmental Law* (Peru) and the *Environmental Protection Regulations for Hydrocarbon Activity* (Peru), and all other applicable environmental rules, including observing and respecting the culture, practices, and values of the communities where the work on Block 126 is to be conducted. Failure to comply with its environmental obligations under the Block 126 License could result in Osinergmin (the entity in charge of supervising investment in the energy and mining sector in Peru) imposing sanctions on the Contractors and the Ministry of Energy and Mines of Peru terminating the Block 126 Licence.

### **Assignment**

Each of Veraz Peru and Petrominerales Peru is permitted to assign all or part of its interest in the Block 126 License to any of its affiliates upon prior notice to Perupetro. See "*Block 126 License - Joint Operating Agreement*". If either Veraz Peru or Petrominerales Peru proposes to assign all or part of its interest to a third party, Perupetro must determine if the assignee is qualified to become a party to the Block 126 License under applicable Peruvian law. See "*Peru and Industry Conditions – Awarding Contracts*".

### **Relinquishment Rights**

Provided Veraz Peru and Petrominerales Peru have completed their minimum work obligations under the then current Exploration Phase Period, and subject to providing Perupetro with 30 days' prior notice, they may relinquish all of Block 126 to Perupetro. The Contractors are authorized to make partial relinquishments of Block 126 at any time upon 30 days' prior written notice to Perupetro. The Contractors are required to relinquish at least 40% of Block 126 at the end of the Third Exploration Period, and 20% of Block 126 at the end of the Fourth Exploration Period, for a total of at least 60% of Block 126 by the end of the Fourth Exploration Period. At the end of the exploration phase under the Block 126 License, the Contractors are entitled to keep the fields they have discovered plus a surrounding area of 5 km and must relinquish the remaining parts of Block 126. However, the Contractors may keep those parts of Block 126 that they have not relinquished, provided that the Contractors commit to drilling at least one exploratory well or perform five EWUs for every 10,000 ha of Block 126, every two years. If the Contractors decide not to continue carrying out such exploration work, or do not comply with such commitment, they may keep only the fields discovered plus a surrounding area of 5 km. Areas relinquished revert to the Peruvian government.

If the Contractors relinquish all of Block 126 or abandon it without completing the minimum work obligations under the then current Exploration Phase Period, Perupetro will enforce the bank guarantee covering such obligations and terminate the Block 126 License. Enforcing the bank guarantee extinguishes the Contractors' minimum work obligations and, therefore, prevents any enforcement of the corporate guarantee granted by Petrominerales Peru. See "*Block 126 License - Guarantees*".

### **Termination**

The Block 126 License may be terminated:

- (a) by express agreement between the parties;
- (b) by Perupetro if the Contractors request protection against actions taken by creditors and Perupetro deems that its rights under the Block 126 License are not being properly protected; or
- (c) by either Perupetro or the Contractors if the other party fails to comply with its obligations under the Block 126 License other than as a result of force majeure, and such non-compliance remains uncorrected after a period of 60 days following receipt of notice to terminate delivered by the first party. The party receiving the notice to terminate may refer the issue to arbitration if it disputes

In addition, Osinergmin may impose sanctions due to the non-observance by the Contractors of environmental laws and regulations which may result in the termination of the Block 126 License. The Block 126 License will terminate on the occurrence of any of the following:

- (a) the Contractors fail to perform the minimum work program for any period of the exploration phase, including applicable extension periods, without being supported by reasons satisfactory to Perupetro, and in respect of which no alternative work program has been approved by Perupetro;
- (b) a commercial discovery has not been announced prior to the later of the expiry of the exploration phase or the retention period;
- (c) the Contractors do not deliver a guarantee to Perupetro prior to the commencement of the corresponding Exploration Phase Period;
- (d) the Contractors do not complete the minimum work program for an Exploration Phase Period or abandon or relinquish all of Block 126 prior to having completed such minimum work program, without being supported by technical reasons approved by Perupetro, and Perupetro executes the guarantee corresponding to such Exploration Phase Period;
- (e) the Contractors are prevented by an event of force majeure from completing the minimum work program of the then current Exploration Phase Period for a period of 12 months starting from the commencement of such event of force majeure and exercise their right to terminate the Block 126 License, provided that the Contractors give notice to Perupetro of their decision to relinquish Block 126 at least 30 days in advance of the proposed date of relinquishment;
- (f) on the insolvency, bankruptcy, dissolution or liquidation of either Veraz Peru or Petrominerales Peru, unless Veraz Peru or Petrominerales Peru, as applicable, sends Perupetro an application to transfer its interest within 15 business days of such occurrence;
- (g) if the corporate guarantee provided by Petrominerales Peru is not kept in force and is not replaced within 15 business days following receipt by the Contractors of Perupetro's request for replacement, or on the insolvency, bankruptcy, dissolution or liquidation of Petrominerales Peru, if Veraz Peru and Petrominerales Peru fail to respond, within 15 business days, to Perupetro's request to identify a third party that will assume such corporate guarantee; or
- (h) in the event that an arbitrator in the circumstances described above determines the existence of a default and such default is not rectified, or in the event that an arbitration award declares the termination of the Block 126 License.

Upon termination of the Block 126 License, the Contractors are required to assign to Perupetro, at no charge or cost, all real property and certain equipment and facilities owned by Veraz Peru and Petrominerales Peru, which will permit the continuation of the operations under the Block 126 License or permit such equipment and facilities to be used to permit the continuation of such operations. All rights and obligations under the Block 126 License shall cease upon termination, provided that the Contractors will still be entitled to any hydrocarbons produced prior to the termination. In addition, the guarantees granted under the Block 126 License remain enforceable following the termination of the Block 126 License. In the event Petrominerales Peru terminated its obligations under the Block 126 License and Veraz Peru wished to continue to maintain its rights thereunder, it would need to assume operatorship under the license and fulfill the commitments and obligations thereunder either alone or with a new partner.

## Joint Operating Agreement

Effective October 23, 2007, Veraz Peru and True Energy Peru entered into the Joint Operating Agreement. Petrominerales Peru replaced True Energy Peru under the Joint Operating Agreement effective December 4, 2009. The Joint Operating Agreement establishes the rights and obligations of Veraz Peru and Petrominerales Peru under the Block 126 License, including as regards to the joint exploration, appraisal, development, production and disposition of hydrocarbons on Block 126. The Joint Operating Agreement terminates on the earlier of: (i) the termination of the Block 126 License, (ii) the disposition or removal of all joint property of Veraz Peru and Petrominerales Peru, and (iii) a final settlement being entered into between Veraz Peru and Petrominerales Peru in accordance with their respective rights and obligations.

Under the Joint Operating Agreement, Petrominerales Peru holds a participating interest of 80% and Veraz Peru holds a participating interest of 20% in Block 126. The Joint Operating Agreement provides that Petrominerales Peru is designated as "Operator" under the Block 126 License and shall have exclusive charge of and shall conduct all joint operations relating to Block 126.

The Joint Operating Agreement establishes an operating committee (the "**Operating Committee**") which exercises overall supervision and direction of matters pertaining to joint operations. Except as otherwise provided in the Joint Operating Agreement, any decision of the Operating Committee with respect to joint operations requires the affirmative vote of two or more parties to the Joint Operating Agreement who are non-affiliated and hold an aggregate of 60% of the participating interests. Each of Veraz Peru and Petrominerales Peru is entitled to such number of votes as is equal to the percentage of its participating interest under the Block 126 License in any matter to be decided by the Operating Committee.

Pursuant to the Joint Operating Agreement, subject to either party proposing to conduct an Exclusive Operation (as defined below) and subject to the USD\$4.5 million in costs and expenses of Veraz Peru assumed by Petrominerales Peru in connection with Petrominerales Peru's acquisition from Veraz Peru of an additional 25% interest in Block 126, all expenses and liabilities incurred by the Operator in respect to operations on Block 126 are shared by the parties in proportion to their respective participating interests in Block 126, and any hydrocarbons produced from Block 126 will be owned by the parties in accordance with their respective participating interests. The Joint Operating Agreement also requires, subject to any Exclusive Operation being proposed, that budgets and work programs with respect to exploration, development and production operations be approved by the Operating Committee. In addition, subject to any Exclusive Operation being proposed, the Joint Operating Agreement sets out a procedure for awarding contracts which require a tender process if the expected dollar value of the contract exceeds certain limits, based on whether the contract relates to exploration, development or production operations.

Petrominerales Peru may resign as Operator under the Joint Operating Agreement at any time upon 120 days prior notice to Veraz Peru, or such shorter period of notice as the Operating Committee may agree.

Petrominerales Peru may also be removed as Operator upon notice if:

- (a) Petrominerales Peru becomes insolvent or bankrupt, or makes an assignment for the benefit of creditors;
- (b) an order is made by a court or an effective resolution is passed for the reorganization under any bankruptcy law, dissolution, liquidation, or winding up of Petrominerales Peru;
- (c) a receiver is appointed for a substantial part of Petrominerales Peru's assets; or
- (d) Petrominerales Peru dissolves, liquidates, is wound up, or otherwise terminates its existence.

Petrominerales Peru may also be removed by a decision of the Operating Committee (which given Petrominerales Peru's current 80% interest in the Block 126 License, would require its consent) if:

- (a) Petrominerales Peru has committed a material breach of the Joint Operating Agreement and has either failed to commence to cure that breach within 30 days of receipt of notice of the alleged

breach, or failed to diligently pursue the cure to completion (with such removal being subject to the dispute resolution procedures contained within the Joint Operating Agreement);

- (b) Petrominerales Peru ceases to hold a participating interest of 5% or greater in Block 126; or
- (c) there is a direct or indirect change in control of Petrominerales Peru (excluding a transfer of control to an affiliate thereof).

Upon delivery of notice to the other party under the Joint Operating Agreement, a party may propose to conduct an exclusive operation (the "**Exclusive Operation**"). The party receiving notice of a proposal to conduct an Exclusive Operation will have the right to participate in such proposed Exclusive Operation, whereupon it will be conducted as a joint operation. In the event such party does not elect to participate in the Exclusive Operation (the "**Non-Participating Party**"), it may subsequently reinstate the rights and interests it otherwise relinquished by electing not to participate by paying its pro rata portion of all liabilities and expenses incurred in the Exclusive Operation. In addition to paying the foregoing liabilities and expenses, the Joint Operating Agreement also contains back-in penalties whereby a Non-Participating Party, in order to reinstate its rights and interests, must pay: (i) 300% of its pro rata portion of all liabilities and expenses incurred relating to the obtaining of certain geological, geophysical and geochemical data; (ii) 900% of its pro rata portion of all liabilities and expenses incurred in the Exclusive Operation relating to the drilling, deepening, testing, completing, sidetracking, plugging back, recompleting and reworking of the applicable exploration well; and (iii) 500% of its pro rata portion of all liabilities and expenses incurred in the Exclusive Operation relating to the drilling, deepening, testing, completing, sidetracking, plugging back, recompleting and reworking of the applicable appraisal well or wells which delineated the discovery.

The Joint Operating Agreement provides a right of first negotiation to each party if the other party wishes to transfer its participating interest in Block 126. A party to the Joint Operating Agreement wishing to transfer its interest must first provide notice to the other party and allow the other party an opportunity to make an offer on the participating interest. If the other party does not make an offer within 30 days of the receipt of such notice or if the transferor does not believe that the other party's offer presents an acceptable basis for negotiation, the transferor shall be entitled, for a period of 180 days, to transfer its participating interest to a third party provided that the terms of such transfer must be more favourable to the transferor than the terms of any offer made by the other party to the Joint Operating Agreement.

The Joint Operating Agreement is governed by the laws of England and Wales.

## **BLOCK 126 EXPLORATION AND DEVELOPMENT PLANS**

### **Project Plans**

Veraz Peru and Petrominerales Peru completed the acquisition of 150 km<sup>2</sup> of 3D seismic and 50 km of additional 2D seismic at the end of December 2009 at a gross cost of USD \$11,235,860, including recoverable tax. The seismic program comprised a total of 500 EWU's, thereby meeting the minimum work program for the Second Exploration Period. Processing and interpretation of the new seismic was completed in the second quarter of 2010. As a result thereof, three initial drilling locations have been selected: the La Colpa 2X well, situated approximately 2 km north of the existing La Colpa 1X well; the La Colpa Norte 1X well, also situated on the La Colpa structure; and the Sheshea 1X well, which will test the Sheshea structure. The Operator has entered in to a one year drilling contract with a Peruvian drilling contractor and has indicated that drilling of the first exploratory well, the La Colpa 2X well, is expected to begin in early September 2011, with drilling of the Sheshea 1X well anticipated to follow in November 2011. Assuming the La Colpa 2X well is successful, drilling of the La Colpa Norte 1X well is expected to begin in early 2012. The capital program for 2011 is estimated to be \$75MM (\$15MM net to Veraz) and includes the drilling of the La Colpa 2X and Sheshea 1X wells, as well as the construction of two logistics base camps (one at Nueva Italia and a second at Sheshea) and the three drilling leases.

The reprocessing of an additional 1,000 km of existing 2D seismic data to the north of the La Colpa structure is currently underway. If additional leads are identified subsequent EIA and seismic work will be required.

## EIA

Pursuant to the *Environmental Protection Regulations for Hydrocarbon Activity* approved by Supreme Decree No. 015-2006-EM, an EIA was required to be completed and approved before any new field operations were initiated on Block 126. As part of the EIA, environmental baselines were determined for Block 126 in both the wet and dry seasons. These baselines were determined through soil and water sampling programs, the identification of flora and fauna endemic to the area and a thorough examination for any archaeological sites. In addition, the EIA addressed the proposed work plan of the Corporation, including the acquisition of additional 2D and 3D seismic data, the proposed preliminary locations for the construction of new roads, and the proposed preliminary drilling locations. As part of the EIA process, the Corporation conducted three community workshops and a public hearing to describe the scope of the project to the inhabitants of the area of influence of the project and respond to any concerns or issues raised by these inhabitants. The Corporation hired a Health, Safety and Environmental Manager to oversee and facilitate the EIA process, who was further assisted by three specialists in the areas of environmental and social impact assessments. The Corporation also engaged GEMA, a consulting firm with extensive experience in the EIA process and the social and environmental impacts of oil and gas activities in Peru, to prepare the EIA.

The Corporation spent approximately USD\$1.6 million for the EIA and community consultation process, with the EIA being approved by the Ministry of Energy and Mines of Peru on May 29, 2009.

## Geological and Geophysical Program

To date, over 1,000 km of the Existing 2D Seismic Data has been reprocessed and reinterpreted resulting in the identification of the four leads discussed above as well as other structural and stratigraphic leads within Block 126. The completion of this reprocessing and reinterpretation work fulfilled the Corporation's work commitment for the First Exploration Period. In addition, the Second Exploration Period work commitments were satisfied with the acquisition in 2009 of 150 km<sup>2</sup> of new 3D data on the La Colpa structure and 50 km of additional 2D seismic data on several additional exploration leads. See "*Description of Block 126*" and "*Block 126 License - Exploration*".

## Infrastructure Requirements

Preliminary planning has begun with respect to the infrastructure required to commence the Corporation's drilling program. Access into the La Colpa area will require repairs and maintenance to the existing road and bridges on Block 126 and may require the construction of new roads and bridges depending on the access alternative that the Corporation deems most economical. In order to minimize any impacts on the environment, the Corporation may forego construction of new roads in favour of air and river transportation in certain circumstances. Two airstrips already exist on Block 126 and may be improved to facilitate the airborne transportation of supplies. Plans are being finalized to begin lease construction and other civil works programs required to allow drilling to begin in the third quarter of 2011. See "*Description of Block 126 - Transportation and Infrastructure*".

## Drilling Costs, Timing and Availability of Services

The Corporation and the Operator continue to execute their exploration program for Block 126. The new 2D and 3D seismic acquisition programs were completed in late December 2009 and interpretation of this new data is complete. As a result thereof, three drilling locations have been chosen and a one year drilling contract has been entered into with a Peruvian drilling contractor. The first drilling location (La Colpa 2X) is situated roughly two kilometres north of the La Colpa IX well drilled in 1989 by Occidental that tested oil from four different intervals (see "*Description of Block 126 – Block 126 History*"). Drilling of this well is anticipated to commence early in the third quarter of 2011 and will satisfy the minimum work program for the Third Exploration Period. Following completion of the La Colpa 2X well, it is anticipated that the rig will be moved southwest to drill on the Sheshea structure (see "*Description of Block 126 – Sheshea Lead*"), which will satisfy the minimum work program for the Fourth Exploration Period. The third drilling location, La Colpa Norte, is north of La Colpa 2X and is expected to further investigate the size of the resource on the La Colpa structure (see "*Description of Block 126 – La Colpa Structure*").

Based on Petrominerales Ltd.'s drilling cost estimates, each well is anticipated to cost approximately \$48 million; the actual drilling cost per well is approximately \$20 million with the remainder being attributable to logistics, base camp construction, infrastructure and helicopter costs. It should be noted that in order for the Corporation to have

sufficient funds to drill all three proposed wells it will require additional capital which may or may not be available on satisfactory terms. See "*Risk Factors*".

Normally if drilling locations vary materially from those approved in the EIA, the Contractors are required to file an Environmental Management Plan (EMP) or semi-detailed EIA for approval by Perupetro. The Corporation has confirmation from the relevant Peruvian Ministries that the La Colpa wells are within acceptable limits; however, an EMP is required for the Sheshea 1X well. The baseline environmental work has been completed for this and the Operator expects to have the final EMP ready for submission by the first week of May 2011, with government approval anticipated in July 2011.

### **Information Concerning Abandonment and Reclamation Costs**

As at the date hereof the Corporation has not incurred any abandonment or reclamation obligations in respect of Block 126.

### **Tax Horizon**

The Corporation did not pay taxes in 2010. The Corporation's projects are in the pre-production stage of development and capitalized costs to date will be available for deduction for income tax purposes in their respective jurisdictions once commercial operations commence.

### **Costs Incurred**

For the year ended December 31, 2010, the Corporation's property acquisition costs and exploration costs were nil and \$174,179, respectively.

## **BLOCK 141**

### **General**

Subject to receiving final government approval, which is anticipated to be received by the end of 2011, the Corporation acquired a 20% participating interest in Block 141 from Petrominerales Peru authorizing it to carry out exploration and exploitation activities for the purpose of discovering and producing hydrocarbons therefrom. Block 141 is comprised of approximately 554,765 gross (110,935 net) hectares of land in the Lake Titicaca region of southern Peru.

The Titicaca basin is an intermountain basin situated between the Eastern and Western cordilleras of the Central Andes. This area is situated in the Altiplano which is a high desert region that extends some 1,500 km in length and 200 km in width from western Bolivia into southern Peru; average elevation is near 3,800 metres.

Access to Block 141 is good with daily commercial flights from Lima to Juliaca, a rail line from the coast to Puno and a network of paved roads.

### **History**

The only field thus far discovered on the Altiplano is the Pirin field which is situated along geological trend to the south east. Pirin was discovered in 1875 by the Titicaca Oil Company (TOC). TOC drilled ten wells between 1875 and 1915 and the field produced approximately 300,000 bbls of 36 degree API oil in that time. Reservoir depth for this field was shallow at 120 m drill depth. Between 1917 and 1924, an additional five wells were drilled in the field, three of which were producers. In the 1930's and 1940's the Peruvian government drilled an additional thirteen wells in the same area with depths ranging from 200 to 700 metres but none were successful.

The only other work completed in the Titicaca basin was done in the 1990's when Yugansk, a Russian company, and PetroAndes, a Peruvian company, acquired approximately 550 km of 2D seismic in the area that is now Block 105 which borders Block 141 to the south east. Of this data, roughly 300 km is considered very poor quality. During 1995 and 1996, three wells were drilled in the area; Coata 1X, Coata 2X and Ayavacas S-4-38. None were

commercially successful but the Coata 1X well had oil shows in what was interpreted to be the limestones of the Permian Copacabana formation at depths ranging from 1,860 to 1,906 metres.

### **Geology and Leads**

There are two main structural styles which influence the Titicaca basin. The eastern portion of the basin is dominated by compressional tectonics resulting in the development of the Altiplano Fold and Thrust Belt (AFTB). The western portion of the basin is structured through the inversion of an older rift system. It is in this rifted portion of the basin that the Pirin field is located; that same structuring continues to the northwest into Block 141.

Because Block 141 is situated in the desert, there is good surface geological information in the form of outcrops to allow the assessment of source rocks and reservoir potential. Good petroleum systems are thought to exist in both the Permian and the Jurassic/Cretaceous.

Permian source rocks are thought to consist of black shales and dark limestones developed on the top of the Copacabana formation and are thought to coincide with the Permian Ene formation, an important source rock to the north. The Lagunillas and overlying Sipin formations are considered potential Jurassic source rocks.

The Permian demonstrates excellent reservoir development with thick eolian and fluvial sandstone sequences in evidence. Outcrops of the eolian sands in the Pirin area show traces of oil staining. Deformed carbonate sequences in the Jurassic Sipin and Ayavacas formations are considered important reservoirs as well. Jurassic evaporites and Permian shales are considered to have good sealing potential.

From the gravity and magnetics survey several play concepts have emerged, although new seismic will be required to support them.

#### ***Central Fault Block Prospect***

The Central Fault Block prospect is a result of inversion of a pre-existing rift system - an area that earlier in its geological history was structurally low which resulted in increased sedimentation. When these areas subsequently experienced compression the sediments were uplifted, generating ideal conditions for the trapping of hydrocarbons. The Corporation's proposed 2012 seismic program is expected to help better define the structure and determine whether the closure necessary for trapping hydrocarbons exists.

#### ***NE Pinch-out Prospect***

The gravity and magnetics survey suggest Cretaceous sediments thin and then pinch-out to the northeast. Assuming, as is anticipated, that there is an active petroleum system in the area, this again creates ideal conditions for the trapping of hydrocarbons. The presence of oil and gas seeps at the surface help to suggest this will be an important area of exploration. It is anticipated that the proposed 2012 seismic program will help to better define the depositional edge and determine whether the closure necessary for trapping hydrocarbons exists.

#### ***SW Thrust Prospect***

In the western portion of the Block there is evidence of faulting in the form of thrusts associated with the tectonics of the Western Cordillera. These structures are similar to those seen in the western portions of the Ucayali Basin in central Peru. It is anticipated that the proposed 2012 seismic program will help to better define the structure and determine whether the closure necessary for trapping hydrocarbons exists.

#### ***Southern Structural Pinch-out Prospect***

This is a similar play concept to which the Corporation is pursuing on Block 126. Sediment deposition was restricted by the morphology of earlier geological structures creating pinch-outs or areas of non-deposition. When these areas were subsequently subjected to compression the structure and associated depositional termination were pushed up creating excellent conditions for the trapping of hydrocarbons. It is anticipated that the proposed 2012 seismic

program will help to better define the structure and establish whether a depositional edge exists and whether the closure necessary for trapping hydrocarbons exists.

### Block 141 License Contract

The Corporation is awaiting approval from Perupetro regarding its participation in Block 141 and the subsequent changes to the license contract for the Block (the "**Block 141 License**"). It is anticipated that this approval will be received by the end of 2011. Certain of the material terms and commitments under the Block 141 License are as follows:

<b>Exploration Stage</b>	<b>Duration</b>	<b>Minimum Work Program</b>	<b>Letter of Guarantee Required, gross (net to Veraz)</b>
First Stage	18 months	40 EWUs or acquiring, processing and interpreting aerogravimetric data or analyzing technical data available from Perupetro	US \$ 200,000
Second Stage	12 months from completion of the first stage	150 EWUs or 300 km of 2D Seismic	US \$ 750,000 (\$150,000)
Third Stage	18 months from completion of the second stage	150 EWUs or 1 well, 3,000 m minimum	US \$ 750,000 (\$150,000)
Fourth Stage	18 months from completion of the third stage	150 EWUs or 1 well, 3,000 m minimum	US \$ 750,000 (\$150,000)
Fifth Stage	18 months from completion of the fourth stage	150 EWUs or 1 well, 3,000 m minimum	US \$ 750,000 (\$150,000)

The Block 141 License was made effective January 19, 2008 and the minimum work program under the first exploration stage has been completed. With respect to the second exploration stage, Petrominerales Peru has received an extension of the date by which the minimum work program must be completed, but it is anticipated that a further extension will be required. Any failure of Petrominerales Peru and Veraz Peru to complete the minimum work program for a particular exploration stage by the required deadline or to receive an extension of such deadline could result in Petrominerales Peru and Veraz Peru forfeiting their rights under the Block 141 License. Although the Corporation anticipates that Petrominerales Peru will be successful in obtaining an additional extension with respect to the second exploration stage, there is no guarantee that it will be able to do so, or that if able to do so, that Petrominerales Peru and Veraz Peru will be able to satisfy their commitments under the minimum work program by the new deadline. See "Risk Factors"

### Block 141 Exploration Plans

Block 141 is at the earliest stage of development of all of the Corporation's projects in Peru. The only information that currently exists on this block is a recently completed gravity and magnetics survey; there is no seismic or prior drilling information. Interpretation of the survey has been done and from this a 2D seismic program has been developed, with 300 km of new 2D seismic expected to be acquired in 2012 as part of the work commitments made under the Block 141 License. However, prior to initiating the seismic program Petrominerales Peru and Veraz Peru are required to complete an EIA. The contract to complete the EIA has been awarded to the same firm that prepared the EIA for Block 126 and work has begun. It is anticipated that the field work will be completed and the EIA will be submitted for government approval by October 2011. The Corporation anticipates receiving approval for the EIA in the second quarter of 2012 with seismic operations to begin thereafter. Seismic evaluation would follow and,

depending on the results thereof, drilling could commence as early as 2014. Expenditures on Block 141 are anticipated to be approximately \$2.0MM (\$400,000 net to Veraz) in 2011.

## **BLOCK 161**

### **General**

The Corporation has a 20% participating interest in Block 161 and is authorized to carry out exploration and exploitation activities for the purpose of discovering and producing hydrocarbons therefrom. Block 161 is comprised of approximately 491,784 gross (98,356 net) hectares of land in the Ucayali region of east central Peru, and is situated in the Amazon River basin and consists primarily of jungle covered, rolling topography. It is situated in the Ucayali basin, one of the eighteen sedimentary basins in Peru currently recognized by Perupetro. It is bounded in the west by the foothills of the Andes and on the east by the Ucayali River. Perupetro has granted the Corporation access to all of its existing geological, geophysical and engineering information in respect of the block, including existing 2D seismic data. To date, four wells have been drilled on Block 161 by previous holders of interests in the area, all of which have been abandoned. There are 256.04 km of seismic data on the block available in SEG-Y format, and an additional 633.9 km of data in paper form. In addition, data in respect of another well, Tirutan 1X, drilled to the east of Block 161, has also been made available to Veraz for additional geologic information.

### **Block 161 History**

The first well on Block 161 was the Coninca-1 which was drilled in 1948 and abandoned at 4,700 feet due to mechanical difficulties. Coninca-2 was drilled 175 meters away from the first well as an offset by International Petroleum Co., Ltd., who also drilled the first well. The wells were drilled on the surface expression of the Pisqui anticline without seismic data. No hydrocarbons were reported in either well. In 1967, Mobil drilled an additional two wells, Pisqui-1 and Tahuaya-1. Pisqui-1 was a near offset to the dry Coninca wells, and Tahuaya-1 was drilled on a nearby structure. Mobil had previously discovered the Aguaytia gas field south of Block 161 in 1961. It is unclear whether any of these locations were chosen using seismic data; however, at that time, the seismic data and subsequent processing methods used would have been of a very low quality.

### **Geology and Leads**

New exploration on Block 161 is in an early stage, but several leads and one prospect, the Pisqui Pinch-out Prospect, have been identified. The Corporation currently anticipates completing a seismic program in 2012 that is expected to better define additional opportunities on the Block.

The western portion of Block 161 is structurally dominated by the Pisqui and Tahuaya anticlines. These anticlines are relatively recent in origin, created during the Tertiary by the latest phase of the Andean Orogeny. Drilling throughout Peru has demonstrated that such late structuring is generally post-migration of the oil and gas and therefore these structures are generally, though not exclusively, barren. The nearby oil and gas fields of Aguaytia and Maquia demonstrate that a hydrocarbon system is in place and that a more subtle analysis of data is required. All the wells drilled previously on Block 161 were located primarily as a result of surface expressions of anticlines and did not have the benefit of modern exploration methods.

The stratigraphic column in the area of Block 161 is similar to that of the Corporation's Block 126 to the east with a couple of important additions. First, two additional formations with recognized potential as source rocks, the Jurassic Pucara and the Devonian Cabanillas, are evident in this area, which increases the potential for hydrocarbon generation. Second, there are additional reservoirs present, including the Permian Ene and Devonian Cabanillas formations. Reservoir depths suggest the potential for discovering oil and/or gas.

Reservoir zones are numerous; the Aguaytia field produces from the Cretaceous Cushabatay formation, while the Maquia field produces from the Cretaceous Vivian sandstone.

Preliminary analysis of existing 2D seismic on Block 161 suggests several play types:

- (a) new seismic should identify the culminations of the Pisqui and Tahauaya anticlines, which despite the later structuring, could nevertheless retain oil or gas. For example, the Aguaytia field exists on a similar recent structure, probably because of subtle earlier structuring that only newer seismic can identify;
- (b) structural highs, which pre-date the current structures, are visible on the existing seismic data and form important potential traps; and
- (c) stratigraphic pinchouts are known to occur from the existing wells, and complex patterns of subcrops and pinchouts are evident even on the older seismic data.

### *Pisqui Subcrop Prospect*

The Pisqui Subcrop prospect is similar to paragraph (c) above. On the western flank of the Pisqui structure the seismic suggests a subcrop or stratigraphic pinch-out exists which was not tested in any of the wells drilled on the highest point of the structure as these wells are east of the pinch-out. This play concept is similar to the Corporation's Cushabatay/ Ene Wedge prospect on Block 126. Sediment deposition was restricted by the morphology of earlier geological structures creating pinch-outs or areas of non-deposition. When these areas were subsequently subjected to compression the structure and associated depositional termination were pushed up creating excellent conditions for the trapping of hydrocarbons.

Additional structures may exist in the northeast portion of the block that has not been covered by seismic.

### **Block 161 License Contract**

Certain of the material terms and commitments under the Block 161 license contract (the "**Block 161 License**") are as follows:

<b>Exploration Stage</b>	<b>Duration</b>	<b>Minimum Work Program</b>	<b>Letter of Guarantee Required, gross (net to Veraz)</b>
First Stage	30 months	376 EWUs or geological or geophysical evaluation of existing areas. Reprocessing and interpretation of 300 km of 2D Seismic. 300 EWUs or 350 km 2D Seismic or gravity and magnetics during seismic. Geological – geophysical report.	US \$1,128,000
Second Stage	18 months from completion of the first stage	476 EWUs or 1 well, 3300 m minimum or until reaching the Pucara formation	US \$1,428,000 (\$285,600)
Third Stage	18 months from completion of the second stage	476 EWUs or 1 well, 3300 m minimum or until reaching the Pucara formation. 150 EWUs or 1 well, 3000 m minimum	US \$1,428,000 (\$285,000)
Fourth Stage	18 months from completion of the third stage	476 EWUs or 1 well, 3300 m minimum or until reaching the Pucara formation. 150 EWUs or 1 well, 3000 m minimum	US \$1,428,000 (\$285,000)

The Block 161 License was made effective June 15, 2009. It is not anticipated that Petrominerales Peru and Veraz Peru will have satisfied the minimum work program under the first exploration stage prior to its expiry, and as a result they will be required to apply for an extension. Any failure of Petrominerales Peru and Veraz Peru to complete the minimum work program for a particular exploration stage by the required deadline or to receive an extension of such deadline could result in Petrominerales Peru and Veraz Peru forfeiting their rights under the Block 161 License. Although the Corporation anticipates Petrominerales Peru will be successful in obtaining an extension with respect to the first exploration stage, there is no guarantee that it will be able to do so, or that if able to do so, that Petrominerales Peru and Veraz Peru will be able to satisfy their commitments under the minimum work program by the new deadline. See "Risk Factors"

### Block 161 Exploration Plans

A contract to complete an EIA on Block 161 has been awarded and work has begun. It is anticipated that the field work will be completed and the EIA will be submitted for government approval by October 2011. The Corporation anticipates receiving approval for the EIA in the second quarter of 2012 with seismic operations to begin thereafter. Seismic evaluation would follow and, depending on the results thereof, drilling could commence as early as 2014. Expenditures on Block 161 are anticipated to be approximately \$2.0MM (\$400,000 net to Veraz) in 2011.

### DESCRIPTION OF CAPITAL STRUCTURE

Veraz is authorized to issue an unlimited number of Common Shares without nominal or par value.

Holders of Common Shares are entitled: (i) to one vote per share at meetings of shareholders of Veraz, (ii) to dividends if, as and when declared by the board of directors, and (iii) upon liquidation, dissolution or winding-up of the Corporation, to receive the remaining property of Veraz.

### MARKET FOR SECURITIES

The Common Shares were listed and posted for trading on the TSXV under the symbol "VRZ" on February 16, 2010. Prior thereto, the Common Shares were listed and posted for trading on the CNSX. The following sets forth the price range and trading volume of the Common Shares on the CNSX and the TSXV (as reported by the CNSX and the TSXV) for the periods indicated:

	CNSX		
	Price Range		
	High	Low	Volume
<b>2010</b>			
January	0.92	0.60	844,613
February	0.93	0.83	877,720
	TSXV		
	Price Range		
	High	Low	Volume
<b>2010</b>			
February (13-28)	0.95	0.86	179,367
March	0.90	0.71	480,527
April	0.82	0.73	529,814
May	0.79	0.59	264,500
June	0.64	0.56	176,100
July	0.64	0.50	194,897
August	0.65	0.50	733,570
September	0.59	0.45	515,377
October	0.95	0.51	445,180
November	0.86	0.59	1,464,010
December	0.74	0.59	2,007,691

## DIVIDEND POLICY

Veraz has not paid any dividends on its outstanding Common Shares and does not anticipate paying dividends for the foreseeable future. The board of directors of Veraz will determine the actual timing, payment and amount of dividends, if any, that may be paid by Veraz from time to time based upon, among other things, the cash flow, results of operations and financial condition of Veraz, the need for funds to finance ongoing operations and other business considerations as the board of directors of Veraz considers relevant.

## ESCROWED SECURITIES

Pursuant to TSXV Policy 5.4, the directors and officers of Veraz have entered into an escrow agreement (the "**Escrow Agreement**") with Veraz and Valiant Trust Company, as escrow agent, whereby an aggregate of 2,183,757 Common Shares held by such directors and officers and certain other shareholders (representing approximately 4.08% of the outstanding Common Shares) are held in escrow as at the date of this Annual Information Form. The escrowed shares are scheduled to be released as follows:

Percentage of Escrowed Common Shares to be Released	Release Date
12.5%	August 2, 2011
18.75%	February 2, 2012
18.75%	August 2, 2012
50.0%	February 2, 2013

## DIRECTORS AND EXECUTIVE OFFICERS

The names, jurisdiction of residence, positions with the Corporation, length of time as a director and principal occupation of the directors and executive officers of the Corporation are set out below.

Name and Jurisdiction of Residence	Position with the Corporation	Director Since <sup>(6)</sup>	Principal Occupation
Paul R. Baay <sup>(1)(2)(3)(4)(5)</sup> Alberta, Canada	Non-Executive Chairman and Director	June 4, 2007	Chairman and Chief Executive Officer of Touchstone Resources Ltd. Prior thereto, President and Chief Executive Officer of True Energy Inc. since its formation on August 31, 2000 until May 14, 2007.
Case Caulfield Alberta, Canada	Vice President, Exploration	N/A	Vice President, Exploration of Veraz since November 2008. Prior thereto, Mr. Caulfield was employed at True Energy Trust as Vice President, Exploration from November 2005 to November 2008.
Colin Christie Alberta, Canada	Vice President, Finance and Chief Financial Officer	N/A	Vice President, Finance and Chief Financial Officer of Veraz since February 2008. Partner and Senior Vice President of Alger & Associates Inc. from April 2001 to January 2008.

<b>Name and Jurisdiction of Residence</b>	<b>Position with the Corporation</b>	<b>Director Since<sup>(6)</sup></b>	<b>Principal Occupation</b>
Oppe Cosijn Alberta, Canada	President and Chief Executive Officer and Director	April 2, 2007	President and Chief Executive Officer of Veraz since June 2007. Vice President, Project Development of Veraz from April 2007 to June 2007. Independent Geological Consultant from April 2006 to April 2007.
D.W. (Dan) Long, P.Eng. <sup>(3)(4)(5)</sup> Alberta, Canada	Director	February 1, 2008	Since April 2008, Vice President, Business Development of each of Enhance Energy Inc., a company specializing in enhanced oil recovery and the storage of carbon emissions, and Clearbrook Resources Inc., an oil and gas exploration and production company. Vice President, Corporate Development and Marketing of Northrock Resources/TAQA North from September 2001 to March 2008.
Enrique J. L6pez de Mesa <sup>(1)(2)(4)</sup> Ontario, Canada	Director	December 14, 2007	President and Chief Executive Officer of Alpaca Resources Inc., a mining company, since July 2007. Vice President of Kingsway Capital of Canada Inc. from December 2002 to August 2007.
Trevor Mitzel <sup>(1)(3)</sup> Alberta, Canada	Director	June 4, 2007	Chief Financial Officer of Big Country Energy Services L.P., an energy services provider, since January 2005.
Thomas E. Valentine <sup>(2)(3)(4)(5)</sup> Alberta, Canada	Director	April 30, 2008	Partner with MacLeod Dixon LLP, a law firm, since August 1995.

## Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Governance Committee.
- (4) Member of the Reserves and Resources Committee.
- (5) Member of the Health, Safety and Environment Committee.
- (6) All of the directors of the Corporation have been appointed to hold office until the next annual meeting of shareholders or until their successor is duly elected or appointed, unless their office is earlier vacated.

As at December 31, 2010, the directors and officers of Veraz, as a group, beneficially owned or controlled or directed, directly or indirectly 3,065,109 Common Shares, or approximately 5.73% of the issued and outstanding Common Shares.

### **Cease Trade Order, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons) is, as of the date hereof, or was within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Corporation), that: (a) was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect

for a period of more than 30 consecutive days (collectively, an “**Order**”), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to an Order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation: (a) is, as of the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of the Corporation, no director or executive officer of the Corporation (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

The directors or officers of the Corporation may also be directors or officers of other oil and gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Corporation. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Mandate and Terms of Reference**

The Mandate and Terms of Reference of the Audit Committee of the board of directors is attached hereto as Schedule "A".

### **Composition of the Audit Committee**

The members of the Audit Committee are Messrs. Trevor Mitzel (Chairman), Paul Baay and Enrique L6pez de Mesa, each of whom is independent (in accordance with National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”)) and financially literate.

### **Relevant Education and Experience**

Mr. Baay graduated from the University of Western Ontario in 1983 with a Bachelor of Arts degree in Administrative and Commercial Studies. Mr. Baay is currently Chairman of Vero Energy Inc. and has served as Chairman and Chief Executive Officer of Touchstone Resources Inc. since September 2010. Mr. Baay is formerly the Managing Director of Abacus Energy Inc. and also served as the President and Chief Executive Officer of True Energy Inc. from September 2000 to September 2007. Mr. Baay was a member of the board of directors of Millennium Seismic Ltd. from 2001 to 2007 and Chairman of the board of directors of Request Seismic Surveys

Ltd. from March 1998 to September 2000. He also served as President, Chief Executive Officer, and as a director of Remington Energy Ltd. from 1993 to 1999. Mr. Baay is currently a director of the Rundle Mountain charitable foundation.

Mr. L pez de Mesa graduated from McGill University in 1986 with a Bachelor of Arts degree and from the University of Toronto in 1995 with a Masters of Business Administration. He is currently the President and Chief Operating Officer of Sino Vanadium Inc. From 2007 to 2010 he was the President and Chief Executive Officer of Alpaca Resources Inc. From December 2002 to September 2007, Mr. L pez de Mesa was a Vice-President with Kingsway Capital of Canada Inc. Prior to this, he served as Director, Corporate Finance for PricewaterhouseCoopers Securities in Toronto, Ontario, and as a senior corporate finance professional with a natural resource boutique investment bank. Mr. L pez de Mesa began his career with Barclays de Zoete Wedd, where he spent seven years in the investment banking arm of Barclays PLC.

Mr. Mitzel has acted as the Chief Financial Officer of Big Country Energy Services LP ("Big Country") since January 2005, and was also acting Chief Financial Officer of Touchstone Resources Inc. from March 2010 to February 2011. Prior to joining Big Country, Mr. Mitzel was the Chief Financial Officer of Arsenal Energy Inc. from September of 2004 to January of 2005. Additionally, Mr. Mitzel was the Chief Financial Officer of Environmental Management Solutions Inc. from April of 2002 to March of 2004. From April 2000 to April 2002, Mr. Mitzel was a Corporate Analyst in the Corporate Finance department of the TSXV, where he reviewed new listings and major transactions of listed companies. Mr. Mitzel received his Chartered Accountant designation in 1999 and articulated with KPMG LLP in Calgary, Alberta, as a member of their Exploration and Production Specialty Group. Mr. Mitzel received his Chartered Financial Analyst designation in 2000 and received his Bachelor of Commerce Degree from the University of Calgary in 1996.

#### **Audit Committee Oversight**

At no time during the Corporation's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

#### **Reliance on Certain Exemptions**

At no time during the Corporation's most recently completed financial year has the Corporation relied on the exemption in Section 2.4 (*De Minimis Non-Audit Services*) of NI 52-110, or an exemption from NI 52-110, in whole or in part, granted under Part 8 (*Exemptions*) of NI 52-110.

#### **Pre-Approval Policies and Procedures**

The Audit Committee is authorized by the Board of Directors to review the performance of the Corporation's external auditors and approve in advance provision of services other than auditing and to consider the independence of the external auditors, including reviewing the range of services provided in the context of all consulting services used by the Corporation. The Chairman of the Audit Committee is authorized to approve any non-audit services or additional work which the Chairman deems as necessary and is required to notify the other members of the Audit Committee of such non-audit or additional work.

#### **Audit Fees**

The following table sets forth the fees billed by the Corporation's external auditors in each of the 12 months ended December 31, 2010 and 2009:

<b>Services</b>	<b>12 months ended December 31, 2010</b>	<b>12 months ended December 31, 2009</b>
Audit Fees <sup>(1)</sup> .....	\$55,000	\$81,500
Audit-Related fees <sup>(2)</sup> .....	\$66,000	Nil
Tax Fees <sup>(3)</sup> .....	\$10,020	Nil
All Other Fees <sup>(4)</sup> .....	\$6,500	Nil
<b>Total</b> .....	<b>\$137,520</b>	<b>\$81,500</b>

Notes:

- (1) Aggregate audit fees billed.
- (2) Aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Corporation's financial statements which are not included under the heading "*Audit Fees*". "*Audit-Related Fees*" for the year ended December 31, 2010 relate to fees billed in relation to the Corporation's 2010 financings.
- (3) Aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. "*Tax Fees*" for the year ended December 31, 2010 relate to fees billed for services provided in connection with the sale of a further 25% interest in Block 126 to Petrominerales Peru in October 2010.
- (4) Aggregate fees billed for products and services other than as set out under the headings "*Audit Fees*", "*Audit-Related Fees*" and "*Tax Fees*". "*All Other Fees*" for the year ended December 31, 2010 relate to fees billed for services provided in connection with the Corporation's listing on the TSXV.

### **Exemption**

The Corporation is a "venture issuer" as defined in NI 52-110 and is relying on the exemption in Section 6.1 (Venture Issuers) of NI 52-110 with respect to its reporting obligations under Part 5 (Reporting Obligations) of NI 52-110.

### **MATERIAL CONTRACTS**

Other than contracts entered into in the ordinary course of business, the only material contracts entered into by the Corporation, either directly or through one of its subsidiaries, within the last financial year or before the last financial year (provided such contract can reasonably be regarded as presently material to the Corporation), are the following:

1. Block 126 License. See "Block 126 License".
2. Joint Operating Agreement. See "Block 126 License - Joint Operating Agreement".

Copies of the agreements listed above are available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

### **HUMAN RESOURCES**

At December 31, 2010, Veraz employed 10 full time employees.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Neither Veraz nor any of its subsidiaries is or was a party to, nor is or was any of their property the subject of, any legal proceeding during the most recently completed financial year, nor is Veraz aware of any such contemplated proceedings, which involves a claim for damages, exclusive of interest and costs, that may exceed 10% of the current assets of Veraz.

During Veraz's most recently completed financial year, there have been no (i) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (ii) penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision; or (iii) settlement agreements the Corporation entered into with a court relating to securities legislation or with a securities regulatory authority.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There were no material interests, direct or indirect, of any director or executive officer of the Corporation, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of outstanding voting securities of the Corporation, or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year of the Corporation which has materially affected or is reasonably expected to materially affect the Corporation.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is Valiant Trust Company at its principal office in Calgary, Alberta.

## **INTERESTS OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than Mr. Case Caulfield and KPMG LLP.

Mr. Caulfield is the Vice President, Exploration of the Corporation and, as at the date hereof, legally and beneficially owns, directly or indirectly, an aggregate of 136,523 Common Shares and options to acquire an additional 550,000 Common Shares.

KPMG LLP, Chartered Accountants, is the Corporation's auditor and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## **PERU AND INDUSTRY CONDITIONS**

### **General**

Peru is a South American country, divided by the Andes Mountains into three zones: a coastal area along the Pacific Ocean which extends between the borders with Chile and Bolivia in the south, and Ecuador and Colombia in the north; a mountainous area, with peaks over 6,760 m, which lies in the centre of the country; and a heavily forested slope which leads to the Amazon jungle. The latter zone is where the Ucayali Basin and Blocks 126 and 161 are situated. Block 141 is situated near the Bolivian border in the Altiplano, an area of high desert between the Eastern and Western Cordilleras of the Andes. To the east, Peru borders on Brazil. The climate ranges from tropical in the east to a dry desert in the west to temperate to frigid in the Andes.

### **Oil and Gas Activity in Peru**

Peru's oil and natural gas reserves are the fifth largest in South America. According to Perupetro's website, as of June 2010 domestic oil and gas production in Peru was comprised of approximately 155,800 bbl/d of oil and natural gas liquids and 426.4 Mmcf/d of natural gas. The principal oil producing area in Peru is situated in the Marañon Basin, onshore in the northern part of the country. Perupetro's estimates of produced and proven reserves for the Marañon Basin are greater than 1,000 Mmmbbl of oil. Other producing regions in Peru include the Talara basin, with an estimate of more than 1,500 Mmmbbl of oil produced or proved, the Madre de Dios basin, with an estimated 2.5 Tcf of proved natural gas, and the Ucayali Basin with an estimated 800 Mmmbbl of NGL and 12.5 Tcf of natural gas produced or proved (all estimates are as shown on Perupetro's website).

Currently, there is approximately 160,000 bbl/d of excess pipeline capacity available on the North Peruvian pipeline for new oil discoveries. Petroperu manages the pipeline but has no equity interest in production or reserves. Perupetro is responsible for overseeing the negotiation and granting of exploration licenses and the promotion, internationally, of Peru's upstream hydrocarbon potential.

### **Government Regulations and Incentives**

The crude oil and natural gas industries in Peru are subject to extensive government regulation governing operations, land tenure, exploration, development, production, refining, transportation and marketing. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the crude oil and natural gas industry in Peru.

The recent revamping of Peru's contract and fiscal terms has provided a positive framework for the industry, as evidenced by the surge of new licensing and field activity. Some of the key elements of this new framework are

establishment of royalty tax contracts, no requirement for production sharing, seven-year exploration phase contracts followed by long life exploitation tenures, negotiable work programs, free access to existing data, access to world pricing, unrestricted movement of money, absence of import taxes on equipment, dispute resolution via international arbitration, guarantees of tax and currency stability during contract life, low income tax rates (30%), unrestricted repatriation of funds, and no export taxes on production. Furthermore, contracts do not require domestic supply obligations, and low royalty rates for smaller fields encourage exploration.

### **Hydrocarbons Law**

The Hydrocarbons Law creates Perupetro, a state company of the Energy and Mines Sector organized as a corporation by virtue of the *Business Companies Law* (Peru). The Peruvian State, as owner of the hydrocarbons located in situ in the national territory, gives Perupetro the right of ownership over these hydrocarbons, such that Perupetro may negotiate and enter into hydrocarbon contracts. Perupetro also supervises hydrocarbon contracts.

The Hydrocarbons Law has established different types of contracts. According to Article 10 of the Hydrocarbons Law, it is possible to sign a Licence Contract, a Service Contract, or any other type of contract approved by the Ministry of Energy and Mines.

### **Awarding Contracts**

Any individual or legal entity, whether national or foreign, that wishes to enter into a hydrocarbon exploration and/or exploitation license contract must first obtain the prior written consent of Perupetro. The *Regulations Governing the Qualification of Oil Companies* approved by Supreme Decree No. 030 2004-EM establish the technical, legal, economic and financial requirements to be satisfied in order to obtain the qualification that allows an oil and gas company to commence negotiating a license contract with Perupetro. The requirements that need to be satisfied depend on whether or not the company has previous experience with hydrocarbon exploration and exploitation activities. If a company has previous experience with exploration and exploitation activities, it will need to submit various technical and financial documents to Perupetro, including financial statements for the previous 2 years and information establishing, among other things, the exploration and exploitation activities it has carried on during the previous 2 years, its production and proved reserves and that it has the management and skilled personnel to carry out such operations. If a company does not have previous experience with exploration and exploitation activities, it will need to submit documentation and information to Perupetro establishing that it has sufficient economic and financial capacity to develop the activities relating to the project it is seeking to negotiate with Perupetro and that it has entered into a commitment of association with a technically qualified operator to carry out hydrocarbons exploration and exploitation operations and has the management and skilled personnel to carry out such operations. See "*Block 126 License - Operator*".

Before entering into such a contract, Perupetro must either call for bids or hold direct negotiations. If several companies are interested in the relevant area, Perupetro will call for bids in order to award the contract to the highest bidder. If only one company has expressed an interest in the area, Perupetro may then hold direct negotiations. Contracts are approved by Supreme Decree and countersigned by the Minister of Economy and Finance and the Minister of Energy and Mines within 60 days of Perupetro's entering into the contract.

If there are two or more individuals or corporations making up the contractor, each contract identifies the party responsible for managing the operation. All parties to the contract are jointly and severally responsible to Perupetro for the obligations set forth in the contract. Furthermore, each party shall be individually responsible to the Peruvian Government for their tax and accounting liabilities.

Petrominerales Peru has been designated as the Operator under the terms of the licenses for Blocks 126, 141 and 161, and, together with Veraz Peru, is jointly and severally responsible to Perupetro for the obligations of the Contractors under the licenses. The relationship between Veraz Peru and Petrominerales Peru as regards the blocks is governed by the joint operating agreements in respect thereof. See "*Block 126 License - Joint Operating Agreement*".

## Operations

Peru's hydrocarbon exploration and exploitation laws and regulations are applicable to all contractors under license contracts. Contractors, in turn, are responsible for having their subcontractors comply with the provisions set forth in the regulations.

Pursuant to such laws and regulations, contractors are permitted to construct, operate and maintain pipelines for the transportation of hydrocarbons and by-products. In order to engage in pipeline transportation activities, contractors need to: (i) obtain an authorization to install a main pipeline from the Hydrocarbons General Bureau of the Ministry of Energy and Mines of Peru, (ii) complete and submit an environmental impact assessment to the Ministry of Energy and Mines for approval, (iii) obtain all easements required to be granted by landowners or imposed by the Hydrocarbons General Bureau in Peru, (iv) obtain a favourable technical report from Osinergmin once the installation of the pipeline has been completed, and (v) receive authorization to operate such pipeline from the Hydrocarbons General Bureau. To date, the Corporation has not entered into an exploitation contract.

Provided contractors comply with the rules and regulations established by the Ministry of Energy and Mines in Peru, contractors may install, operate and maintain petroleum refineries and processing plants for natural gas, condensate, natural asphalt, greases, lubricants and petrochemicals, and may further construct, operate and maintain hydrocarbon and by-product storage facilities and storage, distribution and transportation facilities for the marketing and sale of oil and gas to the public.

## RISK FACTORS

The following are certain risk factors relating to the Corporation which prospective investors should carefully consider before deciding whether to purchase Common Shares. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this annual information form. The risks and uncertainties described below are not the only risks and uncertainties the Corporation faces. Additional risks and uncertainties not currently known to the Corporation or that the Corporation currently deems immaterial also may impair the business operations of the Corporation. If any of the following risks actually occur, the Corporation's business, financial condition, results of operations, and the value of the Common Shares could be materially adversely affected.

**An investment in the Common Shares is speculative and subject to a number of risks. An investment in the Common Shares is only suitable to those who can afford a total loss of their investment. No stability rating for the Common Shares has been applied for or obtained from any rating agency.**

### Stage of Development

Veraz is a junior exploration stage company that has experienced recurring losses and has no established sources of revenue. Current cash resources of the Corporation are not sufficient to continue its exploration and development activities absent additional financing or revenues. In the event that the Corporation is unable to raise additional capital and/or attain commercial production from its oil and gas properties, as to which in each case there can be no assurance, Veraz may not be able to continue its operations. If the Corporation is unable to obtain additional financing and/or attain commercial production from its oil and gas properties, an investor may lose all or part of its investment. Also see "*Limited Operating and Earnings History*" and "*Negative Cash Flows*".

### Resource Estimates

There are numerous uncertainties inherent in estimating quantities of resources, including many factors beyond the control of the Corporation. The contingent and prospective resource information set forth in this annual information form represent estimates only. Estimates of resources depend in large part upon the reliability of available geological and engineering data and require certain assumptions to be made in order to assign resource volumes. Geological and engineering data is used to determine the probability that a reservoir of oil and/or natural gas exists at a particular location, and whether, and to what extent, such hydrocarbons are recoverable from the reservoir. Accordingly, the ultimate resources discovered by the Corporation may be significantly less than its estimates.

Reserves, contingent resources and prospective resources involve different risks associated with achieving commerciality. To be classified as reserves, estimated recoverable quantities must be associated with a project that has demonstrated commercial viability. In estimating reserves, the chance of commerciality is effectively 100%. In the case of contingent resources, the chance of commerciality is equal to the chance that an accumulation will be commercially developed. For prospective resources, the chance of commerciality will be the product of the chance that a project will result in the discovery of petroleum and the chance that an accumulation will be commercially developed. By definition, reserves are commercially (and hence economically) recoverable. Certain contingent resources may also be associated with projects that are economically viable, but have not yet satisfied the requirements for commerciality. There is no guarantee that the resources attributed by management to each of its Blocks will become commercially viable.

See "*Resources Estimates*".

### **Addition of Reserves**

The Corporation currently has no reserves. Any future production of the Corporation, and cash flows to be derived therefrom, will be dependent on the Corporation successfully discovering and developing or acquiring reserves. The addition of reserves will depend not only on the Corporation's ability to explore and develop its Blocks or any other properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's exploration, development or acquisition efforts will result in the discovery and development of commercial accumulations of oil and natural gas.

### **Nature of Operations**

An investment in the Corporation is subject to certain risks related to the nature of the Corporation's business and the early stage of development of the Corporation's oil and gas business. The exploration of Veraz's Blocks and any other properties that it acquires involves a high degree of risk that no reserves will be discovered and that no production will be obtained or that the production obtained will be insufficient to recover drilling and completion costs. The costs of seismic operations and drilling, completing and operating wells are uncertain to a degree. Cost overruns can adversely affect the economics of the Corporation's exploration programs and projects. In addition, the Corporation's seismic operations and drilling plans may be curtailed, delayed or cancelled as a result of numerous factors, including, among others, failure to obtain adequate financing, equipment failures, weather or adverse climate conditions, shortages or delays in obtaining qualified personnel, shortages or delays in the delivery of or access to equipment, necessary governmental, regulatory or other third party approvals and compliance with regulatory requirements. In the event that any of the Corporation's plans or operations are delayed, it may not be able to satisfy its minimum work commitments by the applicable deadline under its Block licenses. If the Corporation is unable to satisfy such work commitments by the applicable deadline, it will be required to apply for an extension. If the Corporation fails to apply for such extension or otherwise is not able to obtain an extension on satisfactory terms, its rights under the applicable Block license may be forfeited, which could have a material and adverse affect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

The Corporation's foreign operations in Peru have exposed the Corporation to risks, such as political and currency risks, which may not exist for domestic operations. Accordingly, there can therefore be no assurance that the Corporation's business will be successful or profitable or that commercial quantities of crude oil and natural gas will be discovered by the Corporation. The Corporation has not paid any dividends and it is unlikely to pay dividends in the immediate or foreseeable future. See "*Dividend Policy*" and "*Risk Factors – No Dividends*".

### **Uncertainty of Cost Estimates**

There is a limited amount of information on which to base cost estimates for the Corporation's projects, and therefore the Corporation's actual costs may vary from its cost estimates, and such estimates may be material – this includes, but is not limited to, estimates in respect of infrastructure improvement costs, transportation costs (including truck, river barge and helicopter costs), seismic and drilling costs and production costs for Veraz's exploration and development plans for each of its Blocks. The failure of the Corporation to estimate these costs accurately could affect the commerciality of the resources and reserves, if any, discovered on Veraz's Blocks, the economic viability of the Corporation's product and the ability of the Corporation to transport its product to market.

The Corporation will be subject to all the risks associated with establishing new oil and gas operations in a foreign country, including the timing and cost of the construction of infrastructure and facilities, the availability and cost of skilled labour and equipment, the need to obtain necessary environmental or other governmental approvals and permits, and the availability of funds to finance construction and development activities. Any future profitability from the Corporation's business will depend upon the successful development of the Corporation's Blocks or any other properties acquired by the Corporation in the future.

### **Limited Operating and Earnings History**

The Corporation only recently commenced operations in Peru and has no earnings history. Accordingly, the Corporation has no operating history in the oil and gas industry in Peru and has no meaningful, historical financial information or record of performance as an oil and gas corporation. The Corporation's business plan requires significant expenditures, particularly capital expenditures, during the exploration phases under the licenses governing the Corporation's Blocks. The Corporation will be subject to all the risks associated with establishing new oil and gas operations in a foreign country, including the timing and cost of the construction of infrastructure and facilities, the availability and cost of skilled labour and equipment, the need to obtain necessary environmental or other governmental approvals and permits, and the availability of funds to finance construction and development activities. The Corporation may not have sufficient funds to cover the costs of the Corporation's current drilling program and, accordingly, additional financing or joint venture partners may be required to conduct these activities. The inability to obtain future financing or find future joint venture partners could materially affect the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

Any future profitability from the Corporation's business will depend upon the successful development of the Corporation's Blocks or any other oil and gas properties acquired by the Corporation in the future. There can be no assurance that the Corporation can achieve profitability in the future. Revenues, other than interest on unused funds, may not occur for some time, if at all. The timing and extent of any revenues is variable and uncertain and, accordingly, the Corporation is unable to predict when, if at all, profitability will be achieved. An investment in the Common Shares is highly speculative and should only be made by persons who can afford a significant or total loss of their investment.

### **Negative Cash Flows**

To date, the Corporation has experienced negative operating cash flow and has not recorded any revenues from oil and gas operations. The Corporation only recently commenced operations in Peru, does not have any production and has no history of earnings or cash flow from operations. There can be no assurance that significant additional losses will not occur in the near future or that the Corporation will be profitable in the future. In the event of a commercial discovery, the Corporation's operating expenses and capital expenditures will likely increase as needed consultants, personnel and equipment associated with advancing exploration, development and potentially commercial production are added. The amounts and timing of such expenditures will depend on the progress of the Corporation's exploration and development plans, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners, the acquisition of additional properties and other factors, many of which are not under the control of the Corporation. The Corporation expects to continue to incur losses unless and until such time as one or more of its Blocks enters into commercial production and generates sufficient revenues to fund continuing operations. The development of Veraz's Blocks will require the commitment of substantial resources to conduct the Corporation's exploration and development plans. There can be no assurance that the Corporation will generate any revenues or achieve profitability or that the underlying assumed costs and expenses of the Corporation's exploration and development plans will prove to be accurate. Historically, the only source of funds available to the Corporation has been through the sale of equity, debt securities and most recently a joint venture transaction with Petrominerales Peru. There is no guarantee that the Corporation will be able to sell equity or debt securities in the future or complete other joint venture transactions. If the Corporation does not have sufficient capital for its operations, this could result in delay or indefinite postponement of further exploration or development of its Blocks, which could have a material adverse effect on the Corporation's business, financial condition, results of operations and the value of the Common Shares.

### **Reliance on Petrominerales Peru**

In order for the Corporation to qualify to negotiate the Block 126 License and receive its initial 90% participating interest in Block 126, its obligations as a Contractor under the minimum work program and the annual exploration program for each Exploration Phase Period under the Block 126 License were initially guaranteed by True Energy Inc. pursuant to a joint and several corporate guarantee executed by it in favour of Perupetro. Additionally, the Corporation initially entered into the Joint Operating Agreement with True Energy Peru. Upon approval of the joint venture transaction, Petrominerales Ltd. replaced True Energy Inc. as guarantor of the Block 126 License, and as Operator under the Joint Operating Agreement. Should Petrominerales Peru withdraw as Operator or Petrominerales Ltd. withdraw as guarantor under the Block 126 License, the Corporation would need to assume operatorship and guarantee the obligations under the Block 126 License either on its own or with a new partner, failure of which could result in termination of the Block 126 License. Any termination, expiration or suspension of the Block 126 License would have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Crude Oil and Natural Gas Development**

No reserves have been assigned in connection with any of the Corporation's properties. The future value of the Corporation is therefore dependent on the success of the Corporation's activities which are directed toward the exploration and development of its existing Blocks. The Corporation has plans to explore and develop each of its Blocks –it may not be able to carry out or complete some or all of these plans. The Corporation's plans are contingent on the initial success of its work programs on each Block. There is no certainty of the initial success of any of the Corporation's exploration and development plans or that the Corporation will be able to carry out any of its plans as contemplated or even to complete any of its plans. Additionally, the Corporation's current exploration and development plans could change depending on the results of its initial exploration and development work programs.

The Corporation has a right to explore and develop its Blocks, but does not have a right to produce any oil or natural gas discovered thereon until such time as reserves are identified and determined to be commercial. Exploration and development of crude oil and natural gas reserves is speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of Veraz's Blocks will lead to a commercial discovery or, if there is commercial discovery, that the Corporation will be able to realize such reserves as intended. Few properties that are explored are ultimately developed and produced from. If at any stage the Corporation is precluded from pursuing its exploration or development plans, or such plans are otherwise not continued, the Corporation's business, financial condition, results of operations, and the value of the Common Shares could be materially adversely affected.

Crude oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Corporation will result in discoveries of crude oil, condensate or natural gas that are commercially or economically possible. The Corporation may face shortages of, and increasing costs for, seismic crews and equipment, drilling equipment, services (including transportation for equipment and crews) and personnel. Shortages of, or increasing costs for, experienced seismic and drilling crews and oil field equipment and services could restrict the Corporation's ability to conduct seismic operations, drill wells and conduct other operations which it may currently have planned, and the timing of any such operations. Any delay in the drilling of new wells or significant increase in drilling costs could reduce the Corporation's revenues and cash available for operations.

Furthermore, it is difficult to project the costs of implementing any seismic program in Peru and any exploratory drilling program due to the inherent uncertainties of available logistical arrangements, including transportation, drilling in unknown formations, the costs associated with encountering various drilling conditions such as overpressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Furthermore, drilling operations may be delayed or cancelled as a result of other factors, including encountering unexpected formations or pressures, premature declines of reservoir pressures, potential environmental damage, adverse weather conditions, concession problems, lost circulation of drilling fluids, facility or equipment malfunctions, unexpected operational events, blow-outs, fires, ruptures and spills, all of which could result in personal injuries, loss of life and damage to property of the Corporation and others.

## **Key Personnel**

The Corporation's success depends in large part on the ability of its executive management team, particularly Oppe Cosijn, Colin Christie, Case Caulfield and Victor Lay, to deal effectively with complex risks and relationships and execute the Corporation's business development plan. The members of the management team contribute to the Corporation's ability to obtain, generate and manage opportunities. The Corporation's prospects also depend upon the continued service of its senior technical employees and consultants and its ability to hire service providers to assist it in implementing its exploration and development plans. Peru has a limited number of service providers who provide transportation, including helicopter and barge services, seismic services and drilling and other oilfield services to the oil and gas industry in Peru. There is high demand for the services offered by these service providers. The Corporation may further experience delays or interruptions in its exploration and development plans due to its inability to engage service providers to provide the transportation, seismic and drilling services it requires to carry out its work programs. There is also no guarantee that the Corporation will be able to retain its service providers. In Peru, the identity and efforts of the local representatives, and, in particular, their relationships with governmental agencies can be critical factors in the Corporation's local success. There can be no assurance that the Corporation's present key personnel and directors will remain with the Corporation or that the Corporation will be able to retain its service providers. The departure of any such key person, director or service provider may materially affect the Corporation's business, financial condition, results of operations, and the value of the Common Shares. A shortage of skilled labour may make it difficult for the Corporation to maintain labour productivity, and competitive costs could adversely affect its profitability.

## **Environmental Regulation and Risks**

The crude oil and natural gas industry is subject to environmental regulations in the jurisdictions in which it operates. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with crude oil and natural gas and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. The Corporation may be responsible for abandonment and site restoration costs. The Corporation is of the view that its abandonment and restoration obligations can be satisfied out of general corporate funds as such obligations become due. As of the date hereof, the Corporation has not reserved any funds for future site restoration costs.

Extensive national, state and local environmental laws and regulations in foreign jurisdictions affect nearly all of the operations of the Corporation. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards, establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted, and require environmental reviews and approvals prior to the commencement of any operations. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation, including the use of newer technologies to mitigate the impact of the Corporation's oil and gas activities on such environmentally sensitive areas. There can be no assurance that the Corporation will not incur substantial financial obligations in connection with environmental compliance.

Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations.

Significant liability could be imposed on the Corporation for damages, clean up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by the Corporation or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares. Moreover, the Corporation cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by the Corporation for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

The Corporation will be required to complete and receive government approval of EIAs (and potentially amendments to completed EIA's) from time to time prior to the commencement of exploration activities and other operations. There can be no assurance that Veraz will be able to complete such EIA's and/or obtain government approval thereof (or amendments thereto) on a timely and cost-effective basis, or at all. See "*Block 126 Exploration and Development Plans - Drilling Costs, Timing and Availability of Services*". If the Corporation experiences a delay in receiving government approval of an EIA (or an amendment thereto), the commencement of exploration activities, including seismic programs and drilling, could be delayed, which delay could be material and could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Other Regulations**

The Corporation's operations are regulated extensively. Environmental and other governmental laws and regulations have increased the costs to operate Veraz's business and conduct its operations. Under these laws and regulations, the Corporation could also be liable for personal injuries, property damage and other damages. Failure to comply with these laws and regulations may result in the suspension or termination of operations and subject the Corporation to administrative, civil and criminal penalties. Moreover, public interest in environmental protection has increased in recent years, and environmental and other organizations or groups have opposed, with some success, certain drilling projects.

The Corporation's operations require numerous permits and authorisations under various laws and regulations, including environmental and health and safety laws and regulations, including the EIA. These authorisations and permits are subject to revocation, renewal or modification and can require operational changes, which may involve significant costs, to limit impacts or potential impacts on the environment and/or health and safety. A violation of these authorisation or permit conditions or other legal or regulatory requirements could result in substantial fines, criminal sanctions, permit revocations, injunctions and/or refinery shutdowns. In addition, major modifications of operations could require modifications to the Corporation's existing permits and authorizations, including the EIA, or expensive upgrades to the existing pollution control equipment, which could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Availability of Equipment, Logistical Support and Qualified Personnel**

Oil and natural gas exploration and development activities are dependent on the availability of seismic, drilling and related equipment and qualified personnel in the particular areas where such activities will be conducted. In Peru, all operations, including seismic and drilling operations, are also heavily dependent on the availability of limited logistical support and services, including transportation by helicopter, barges and trucks. Demand for such limited equipment and qualified personnel may affect the availability of such equipment and qualified personnel to the Corporation and may delay the Corporation's exploration and development activities. In addition, the costs of employing qualified personnel and transporting equipment in east central Peru, where Block 161 is located, may be very high due to the remote nature of the area and the inherent challenges of transporting personnel and equipment there. The need to hire or retain qualified personnel from outside Peru to provide services to the Corporation in connection with its exploration and development activities in Peru will further exacerbate costs. There is no guarantee that the Corporation will have available to it all the personnel and equipment required to implement or carry on its work program.

### **Seasonal Weather Conditions**

The Corporation's operations will be adversely affected by seasonal weather conditions, primarily in the jungle region and during the wet season from December to April. The ability to effectively continue exploration and development activities and to transport equipment, personnel and any production may from time to time be adversely impacted by weather conditions. For example, companies operating in the Ucayali Basin experience difficulties in their operations and transportation plans during seasons of increased rainfall which create muddy and poor road conditions. Adverse weather conditions may adversely impact the timing and costs of the Corporation's plans.

### **Additional Financing**

The oil and gas industry generally is capital intensive and the Corporation's participation in the industry will require additional financing to fund such capital expenditures. The ability of the Corporation to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Corporation, including the results of the Corporation's drilling program on Block 126. Periodic fluctuations in energy prices may affect lending policies of banks. An inability to raise additional financing could limit growth prospects in the short run or may even require the Corporation to dispose of properties (or interests therein) to continue operations under circumstances of declining energy prices, disappointing exploration results, or economic or political dislocation in foreign countries. In the alternative, the Corporation will be required to enter into joint venture or farm-out agreements or potentially sell the Corporation to an entity with greater resources. Even if financing is available, there can be no assurance that the Corporation will be successful in its efforts to arrange additional financing on terms satisfactory to the Corporation. This may be further complicated by the limited market liquidity for shares of smaller companies, restricting access to some institutional investors. If additional financing is raised by the issuance of securities from treasury of the Corporation, control of the Corporation may change and shareholders may suffer additional dilution.

In addition, the Corporation may be required to fund its ongoing operations, capital expenditures or transactions to acquire assets or the shares of other corporations through debt financing which may increase the Corporation's debt levels above industry standards.

### **Volatility of Crude Oil and Gas Prices and Markets**

The Corporation's financial condition, operating results and future growth are dependent on the prevailing prices for its hydrocarbons (if any). Specifically, the Corporation's earnings and cash flows from operations depend on the margin above fixed and variable expenses (including the cost of refinery feedstocks) at which it is able to sell refined products (if any). Historically, the markets for crude oil and natural gas have been volatile and such markets are likely to continue to be volatile in the future. Prices for hydrocarbons are subject to large fluctuations in response to relatively minor changes to the demand for crude oil and natural gas, whether the result of uncertainty or a variety of additional factors beyond the control of the Corporation. Any substantial decline in the prices of crude oil and natural gas could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares. Additionally, the economics of producing from some wells may change as a result of lower prices, which could result in a suspension of production by the Corporation. No assurance can be given that crude oil and natural gas prices will be sustained at levels which will enable the Corporation to operate profitably. From time to time the Corporation may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

### **Risks of Foreign Operations**

As the Corporation's oil and gas properties and operations are located in Peru, the Corporation is subject to political, economic, and other uncertainties, including, but not limited to, expropriation of property without fair compensation, changes in energy policies or the personnel administering them, nationalization, currency fluctuations, exchange controls, and royalty and tax increases. Other risks arising out of foreign operations include governmental sovereignty over the areas in which the Corporation's operations are conducted, as well as risks of loss due to civil strife, corruption, acts of war, guerrilla activities and insurrections. The Corporation's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Corporation's operations in Peru, the Corporation may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions. The Corporation may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. Accordingly, the Corporation's exploration, development and production activities in Peru could be substantially affected by factors beyond the Corporation's control, any of which could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

The Corporation's business, financial condition, results of operations, and the value of the Common Shares could also be materially adversely affected by changes in government policies and legislation or social instability and

other factors which are not within the control of the Corporation including, among other things, the risks of terrorism, civil strikes, abduction, renegotiation or nullification of existing concessions and contracts, economic sanctions, the imposition of specific drilling obligations, and the development and abandonment of fields.

Terrorist attacks across the world and in Peru, as well as events occurring in response to or in connection with them, could materially adversely affect the Corporation's business, financial condition, results of operations and the value of the Common Shares. In the 1980's and early 1990's much of Peru was subject to guerrilla and terrorist attacks from groups such as the Shining Path rebels. Such guerrilla activity disrupted oil and gas exploration and development activities in the Corporation's current areas of interest. Although the guerrilla and terrorist threat was largely believed to be eliminated in the late 1990's, news reports have attributed isolated incidents to the Shining Path rebels. Any guerrilla or terrorist activity in the Corporation's areas of interest could materially adversely affect the Corporation's ability to continue exploration, development and exploitation activities on one or more of its Blocks. Energy related assets (which could include refineries and terminals) might be at greater risk of future terrorist attacks than other possible targets. In addition, any terrorist attack throughout the world could have a significant impact on energy prices, including prices for the Corporation's crude oil, natural gas and refined products.

Any termination, expiration or suspension of the Block 126 License would have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares. In addition, the Corporation's production and exploration rights for each of its Blocks are governed by concessions of the Peruvian government. These concessions are also subject to expiration based on the terms of the licenses governing the Blocks. It is also possible that the Peruvian government may unilaterally terminate the licenses governing some or all of the Blocks, despite the lack of authority to do so under the terms of such licenses.

### **Transportation**

To date, energy infrastructure, specifically in the form of pipelines to transport oil, natural gas and NGL, has not yet reached regions of east central Peru, where Block 126 is located. Due to the location of Block 126, there is limited infrastructure currently available to transport oil, natural gas and NGL from the La Colpa 1X well and future wells to market. The Corporation's ability to market its oil, natural gas and NGL, and therefore receive payment for its production, depends on its ability to transport its oil, natural gas and NGL to market. If the Corporation is unable to transport its oil, natural gas and NGL to market within a reasonable time, the Corporation's business, financial condition, results of operations, and the value of the Common Shares could be materially adversely affected.

Until pipelines connecting Block 126 to the refinery at Pucallpa or Station One of the NPP are built, the Corporation will need to rely on other methods to transport any oil, natural gas or NGL which the Corporation may produce to refineries. There is no guarantee that pipelines connecting Block 126 to existing refining and pipeline facilities in Peru will be built. During the initial stages of the Corporation's exploration and development project plan on Block 126, and perhaps later stages depending on the size of the resources discovered, the Corporation contemplates transporting oil by truck to a loading facility on the Ucayali River, and then barging the oil to existing refining and pipeline facilities. The Corporation will also need to rely on barges and helicopters to transport exploration, seismic and drilling equipment to Block 126.

This transportation strategy is completely reliant upon the availability to the Corporation of sufficient trucks and barges to get the Corporation's product to market and sufficient barges and helicopters to transport exploration, seismic and drilling equipment to Block 126 and its other Blocks. There are currently a limited number of helicopters, trucks and barges available to transport hydrocarbons and exploration, seismic and drilling equipment in Peru and the actual availability, cost and timing of transporting oil and gas equipment and production to market in Peru may vary from the Corporation's estimates, which variances may be material. Accordingly, there is no guarantee that the Corporation will have sufficient access, or any access at all, or sufficient funds to obtain access to helicopter, truck and barge capacity for purposes of transporting any resources it discovers to market and the exploration, drilling and seismic equipment required for its operations to Block 126 or its other Blocks. The high costs and limited availability of any of these components of the transportation network could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

Even with transportation in place, the amount of oil and natural gas that can be produced and sold will be subject to curtailment in certain circumstances, such as pipeline interruptions due to scheduled and unscheduled maintenance,

excessive pressure, physical damage to the transportation system or interruptions in other transportation means, such as trucking or barging activities, including, in the case of barging production from Blocks 126 and 161, due to insufficient water levels on the Ucayali River. The curtailments arising from these and similar circumstances may last from a few days to several months. In many cases, the Corporation may only be provided with limited, if any, notice as to when these circumstances will arise and their duration. Any significant curtailment in pipeline capacity or other transportation means could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Infrastructure in Peru**

Peru's physical infrastructure has not been adequately funded and maintained. Particularly affected are the road networks, power generation and transmission, communication systems and building stock. The poor state of certain of Peru's physical infrastructure could disrupt the transportation of goods, supplies and production and, accordingly, may add to the costs of doing business in Peru. Such additional costs or business interruption could materially adversely affect the timing of the Corporation's plans and the Corporation's business, financial condition, results of operations, and the value of the Common Shares. Peru has limited refinery and pipeline capacity, with only two refineries located in proximity to Block 126 and accessible by barge. Refinery capacity at these two refineries may be insufficient to accommodate the Corporation's production in the event of an oil discovery. In addition, infrastructure in the Ucayali region is limited. The closest pipeline to Block 126 is the NPP, and is only accessible by barge. Access to Block 126 is restricted to a highway between Lima and Pucallpa which is the staging area for equipment which would subsequently be transported, by barge, on the Ucayali River. There is limited infrastructure on Block 126 itself, consisting of one main road, currently utilized by logging companies, which is likely to require additional maintenance and repair before significant operations can be conducted that rely on the road.

### **Political and Economic Situation in Peru**

Historically, commodity prices in the Peruvian market have been below import parity prices. The Corporation cannot assure investors that the Peruvian government will not implement price controls in the future for political or other reasons, or that the Peruvian market for oil, natural gas and refined products will become equal to that of the international market.

In recent years, the Peruvian economy has developed into a more market-oriented economy; however, previously, the Peruvian economy had been hampered by periods of significant instability, and experienced at various times significant declines in gross domestic product, hyperinflation, unstable currency, high government debt relative to gross domestic product, elimination of tax benefit legislation, a weak banking system providing limited liquidity to Peruvian enterprises, high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings, significant use of barter transactions, illiquid promissory notes to settle commercial transactions, widespread tax evasion, growth of a black and grey market economy, pervasive capital flight, high levels of corruption and the penetration of organized crime into the economy, significant increases in unemployment and underemployment and the impoverishment of a large portion of the Peruvian population. Any deterioration of Peru's investment climate could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares. Operating in such an environment may make it more difficult for the Corporation to operate its business and finance its activities.

The Corporation cannot assure investors that recent positive trends in the Peruvian economy, such as the increase in gross domestic product, will continue or will not be abruptly reversed by actions such as the elimination of tax exoneration of other taxes or contributions. Moreover, fluctuations in international oil and natural gas prices, or other factors, could adversely affect Peru's economy and the business, results of operation and prospects of the Corporation, and the value of the Common Shares. In addition, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Peru and adversely affect the Peruvian economy. Any such problems could, additionally, have an adverse effect on the international financial and commodities markets, the global economy, world oil prices and direct foreign investment in Peru. Any significant impairment could limit the Corporation's access to capital and disrupt the operation of its business and adversely affect its ability to execute its business strategy.

### **Royalty Regime Changes**

The Corporation is required to make royalty payments with respect to any future production from its Blocks. These royalty payments are adjustable and are principally altered based on baskets of international hydrocarbon prices. Any adverse change in the royalty regime or increase in required royalty payments by the Corporation may have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Foreign Subsidiaries**

The Corporation will conduct some of its operations through its wholly-owned subsidiary, Veraz Peru. Therefore, to the extent of these holdings, the Corporation will be dependent on the cash flows of Veraz Peru to meet its obligations. The ability of Veraz Peru to make payments to the Corporation may be constrained by the following factors:

- (a) the level of taxation, particularly corporate profits and withholding taxes, in Peru; and
- (b) the introduction of exchange controls or repatriation restrictions or the availability of hard currency to be repatriated.

### **Indigenous Tribes**

The regions in which Block 126 and Veraz's other properties are located are inhabited by reclusive indigenous tribes. As oil and gas exploration and mining activity increases in the Amazon jungle region, Peru's indigenous tribes continue to lose control of their traditional territory and, as a result, have tended to move deeper into the jungle. The Corporation's exploration and development program for Block 126 may encroach on the traditional habitat of reclusive indigenous tribes. The indigenous tribes that inhabit the Amazon jungle in which Block 126 is situated may resist encroachment on their native lands. Additionally, certain non-governmental organizations representing the interests of these reclusive indigenous tribes and advocating for their rights could challenge the Corporation's exploration and development plans on the basis that such plans infringe the territorial rights of such reclusive indigenous tribes. Any such resistance to or objection made against the Corporation's exploration and development plans for Block 126 could delay the Corporation's plans and have a material adverse effect on the Corporation's business, financial condition, results of operations and the value of the Common Shares.

### **Peru's Developing Legal System**

As a civil law jurisdiction, Peru has a legal system which is different from the common law jurisdictions of western Canada. Standard legal practices in civil law jurisdictions may result in risks such as: (i) a higher degree of discretion on the part of governmental authorities; (ii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations, particularly where those rules and regulations are the result of recent legislative changes or have been recently adopted; (iii) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; and (iv) relative inexperience of the judiciary and courts in such matters. In the case of foreign entities such as the Corporation doing business in a civil law jurisdiction, effective legal redress in the courts of Peru, whether in respect of a breach of law or regulation or in an ownership dispute, may be more difficult to obtain. As well, legislation and regulations may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licenses, license applications or other legal arrangements will not be adversely affected by changes in governments, the actions of government authorities or others, or the effectiveness and enforcement of such arrangements.

### **Peruvian Legislation**

The Peruvian government has enacted legislation to protect foreign investment and other property against expropriation and nationalization. However, there is no assurance that such protections would be enforced. This uncertainty is due to several factors, including, the potential lack of political will to enforce legislation to protect property against expropriation and nationalization, particularly depending on the political climate and political party in power, the lack of independent judiciary and sufficient mechanisms to enforce judgments and potential for corruption among government officials. Expropriation or nationalization of the Corporation's business would be

detrimental to its operations and have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Banking System in Peru**

Peru's banking and other financial systems are not well developed or regulated and Peruvian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent applications. There are currently a limited number of creditworthy Peruvian banks that the Corporation can conduct banking relations with. Another prolonged or more serious economic crisis or the bankruptcy of one or more of the banks which receive or hold the Corporation's funds could materially adversely affect the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Competition**

The crude oil and natural gas industry is intensely competitive and the Corporation competes with other companies which possess greater technical and financial resources, including seismic equipment and personnel, drilling equipment and personnel and transportation equipment and personnel. Many of these competitors not only explore for and produce crude oil and natural gas, but also carry on refining operations and market petroleum and other products on an international basis. Because of their geographic diversity, larger and more complex assets, integrated operations and greater resources, some of these competitors may be better able to compete on the basis of price and to bear the economic risks inherent in all phases of the energy industry. Further, the Corporation's ability to implement its business strategy will be dependent upon its ability to evaluate and select suitable opportunities and consummate transactions in a highly competitive environment.

### **Fluctuations in Foreign Currency Exchange Rates**

All of the Corporation's operations are located in Peru. Operating and capital costs are generally incurred in Peruvian nuevo soles, and Canadian and U.S. dollars. Fluctuations in the Canadian dollar, U.S. dollar and/or the Peruvian nuevo sol exchange rates may cause a negative impact on revenue and costs and could have a material adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

The Corporation has not historically held or been required to hold a substantial amount of funds in Peruvian nuevo soles; however, this might not always be the case in the future. To the extent that the Corporation is required to hold currency positions in Peruvian nuevo sol, there is a risk from foreign exchange fluctuations. If the exchange rate of the Peruvian nuevo sol fluctuates substantially, or the rate of inflation in Peru materially increases, historic financial statements of the Corporation may not accurately reflect the Canadian dollars value of its assets or operations.

The Corporation cannot assure prospective investors that the Peruvian nuevo sol will not depreciate against the U.S. dollar. Further, to the extent the Peruvian nuevo sol are freely exchangeable into U.S. dollars, the Corporation cannot assure investors that such currencies will continue to be freely exchangeable or that the Corporation will be able to exchange sufficient amounts of such currencies into U.S. dollars to meet any foreign currency obligations. Such foreign exchange risk could materially adversely affect the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Insurance**

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases, and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. Although the Corporation has obtained insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material

adverse effect on the Corporation's business, financial condition, results of operations, and the value of the Common Shares.

### **Market Price of Common Shares**

Securities of small and mid cap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include global economic developments and market perceptions of the attractiveness of certain industries. There can be no assurance that continuing fluctuations in price will not occur. The market price of the Common Shares is also likely to be affected by the United States dollar, the Canadian dollar, or in changes to the Corporation's financial condition or results of operations. Other factors unrelated to the performance of the Corporation that may have an effect on the price of Common Shares include the following: the extent of analytical coverage available to purchasers concerning the business of the Corporation may be limited if investment banks with research capabilities do not follow the Corporation's securities; lessening in trading volume and general market interest in the Corporation's securities may affect a purchaser's ability to trade significant numbers of Common Shares; the size of the Corporation's public float may limit the ability of some institutions to invest in the Corporation's securities; and a substantial decline in the price of the Common Shares that persists for a significant period of time could cause the Corporation's Common Shares to be delisted from the TSX Venture Exchange, further reducing market liquidity. If an active market for the Common Shares does not continue, the liquidity of a purchaser's investment may be limited and the price of the Common Shares may decline below the price at which an investor paid for such Common Shares.

### **No Dividends**

The Corporation has never paid cash dividends on its Common Shares. It currently intends to retain future earnings, if any, to fund the development and growth of its business and has no current intention to pay any cash dividends on its Common Shares for the foreseeable future. As a result, investors will have to rely on capital appreciation, if any, to earn a return on their investment in Common Shares for the foreseeable future.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's information circular for its most recent annual meeting of shareholders that involved the election of directors. Additional financial information is contained in the Corporation's financial statements for its most recently completed financial year and the related management's discussion and analysis.

**SCHEDULE "A"**

**AUDIT COMMITTEE  
MANDATE AND TERMS OF REFERENCE**

## **AUDIT COMMITTEE CHARTER**

The following is the text of the current Charter for the Audit Committee as adopted by the Board on July 8, 2005. Such Charter may be amended by the Board in the future in light of evolving corporate governance standards.

### **Overall Purpose/Objectives**

The Audit Committee will assist the board of directors (the "**Board**") in fulfilling its responsibilities. The Audit Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the committee will maintain effective working relationships with the Board of Directors, management, and the external auditors and monitor the independence of those auditors. To perform his or her role effectively, each committee member will obtain an understanding of the responsibilities of committee membership as well as the Company's business, operations and risks.

### **Authority**

The Board authorizes the audit committee, within the scope of its responsibilities, to seek any information it requires from any employee and from external parties, to obtain outside legal or professional advice and to ensure the attendance of Company officers at meetings as appropriate.

### **Organization**

#### *Membership*

The Audit Committee will be comprised of at least three members, a majority of which are not officers or employees of the Company.

The chairman of the Audit Committee will be nominated by the committee from time to time.

A quorum for any meeting will be two members.

The secretary of the Audit Committee will be the Secretary of the Company, or other such person as may be nominated by the Chairman of, and approved by, the Audit Committee.

#### *Attendance at Meetings*

The Audit Committee may invite such other persons (e.g. the President or Chief Financial Officer) to its meetings, as it deems appropriate.

Meetings shall be held not less than four times a year. Special meetings shall be convened as required. External auditors may convene a meeting of the Audit Committee if they consider that it is necessary.

The proceedings of all meetings will be minuted.

### **Roles and Responsibilities**

The Audit Committee will:

- Gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.
- Gain an understanding of the current areas of greatest financial risk and whether management is managing these effectively.
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

- Review any legal matters which could significantly impact the financial statements as reported on by the Company's counsel and meet with outside independent counsel whenever deemed appropriate.
- Review the annual and quarterly financial statements, including Management's Discussion and Analysis with respect thereto, and all annual and interim earnings press releases, prior to public dissemination, including any certification, report, opinion or review rendered by the external auditors and determine whether they are complete and consistent with the information known to committee members; determine that the auditors are satisfied that the financial statements have been prepared in accordance with generally accepted accounting principles.
- Pay particular attention to complex and/or unusual transactions such as those involving derivative instruments and consider the adequacy of disclosure thereof.
- Focus on judgmental areas, for example those involving valuation of assets and liabilities and other commitments and contingencies.
- Review audit issues related to the Company's material associated and affiliated companies that may have a significant impact on the Company's equity investment.
- Meet with management and the external auditors to review the annual financial statements and the results of the audit.
- Evaluate the fairness of the interim financial statements and related disclosures including the associated Management's Discussion and Analysis, and obtain explanations from management on whether:
  - (a) actual financial results for the interim period varied significantly from budgeted or projected results;
  - (b) generally accepted accounting principles have been consistently applied;
  - (c) there are any actual or proposed changes in accounting or financial reporting practices; or
  - (d) there are any significant or unusual events or transactions which require disclosure and, if so, consider the adequacy of that disclosure.
- Review the external auditors' proposed audit scope and approach and ensure no unjustifiable restriction or limitations have been placed on the scope.
- Review the performance of the external auditors and approve in advance provision of services other than auditing. Consider the independence of the external auditors, including reviewing the range of services provided in the context of all consulting services bought by the company. The Board authorizes the Chairman of the Audit Committee to approve any non-audit or additional audit work which the Chairman deems as necessary and to notify the other members of the Audit Committee of such non-audit or additional work.
- Make recommendations to the Board regarding the re-appointment of the external auditors and the compensation to be paid to the external auditor.
- Review any significant disagreement among management and the external auditors in connection with the preparation of the financial statements.
- Review and approve the Company's hiring policies regarding partners, employers and former partners and employees of the present and former external auditors of the Company.
- Establish a procedure for:

- (a) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; and
  - (b) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters.
- Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately in the absence of management.
  - Endeavour to cause the receipt and discussion on a timely basis of any significant findings and recommendations made by the external auditors.
  - Ensure that the Board is aware of matters which may significantly impact the financial condition or affairs of the business.
  - Perform other functions as requested by the full Board.
  - If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist, and set the compensation to be paid to such special counsel or other experts.
  - Review and recommend updates to the charter; receive approval of changes from the Board.

**SCHEDULE "B"**  
**REPORT OF MANAGEMENT AND DIRECTORS ON RESOURCES DATA AND OTHER INFORMATION**

Management of Veraz Petroleum Ltd. (the "**Corporation**") is responsible for the preparation and disclosure of information with respect to the Corporation's oil and gas activities in accordance with securities regulatory requirements. This information includes estimates of resources as at February 1, 2010 and as at February 1, 2011.

A qualified reserves evaluator has evaluated and reviewed certain of the Corporation's resources data.

The reserves and resources committee of the board of directors of the Corporation has

- (a) reviewed the Corporation's procedures for providing information to the qualified reserves evaluator;
- (b) met with the qualified reserves evaluator to determine whether any restrictions affected the ability of the reserves evaluator to report without reservation; and
- (c) reviewed the resources data with management and the qualified reserves evaluator.

The reserves and resources committee of the board of directors has reviewed the Corporation's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the reserves and resources committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing resources data and other oil and gas information; and
- (b) the content and filing of this report.

Because the resources data are based on judgments regarding future events, actual results will vary and the variations may be material.

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

(signed) "Colin Christie"  
Colin Christie  
Vice President, Finance and Chief Financial Officer

(signed) "D.W. Long"  
D.W. (Dan) Long  
Director and Member of the Reserves and Resources Committee

(signed) "Enrique J. Lopez de Mesa"  
Enrique J. López de Mesa  
Director and Member of the Reserves and Resources Committee

April 28, 2011