

VERAZ PETROLEUM LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2008

The following is dated as of April 24, 2009 and should be read in conjunction with the consolidated financial statements of Veraz Petroleum Ltd. ("Veraz" or the "company") for the year ended December 31, 2008 and the 11 months ended December 31, 2007.

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

Forward Looking Information

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

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

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

With respect to forward-looking statements contained in this MD&A, Veraz has made assumptions regarding: timing and amount of capital expenditures; conditions in general economic and financial markets;

availability of seismic acquisition services and related equipment; and effects of regulation by governmental agencies.

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

For the Years Ended December 31, 2008 and 11 months ended December 31, 2007

General

The Corporation is a junior resource exploration stage company that focuses its business activities on international oil and gas exploration and development. During the 11 months ending December 31, 2007, the Company refocused its business activities on international oil and gas exploration and development activities and discontinued its mining operations. As a result, the consolidated financial statements have been presented to include the results of both continuing operations and discontinued operations.

Highlights and Significant Transactions

- Completed a non-brokered private placement unsecured convertible debenture financing for \$1,000,000 which debentures were converted to 2,126,749 common shares on December 31, 2008;
- Completed its first stage work commitments having reprocessed over 1000 km of existing seismic data;
- Entered into a transaction with Petrominerales Ltd. to sell half of the Company's interest in Block 126 for total consideration of USD \$9.5 million;
- Submitted the Company's Environmental Impact Assessment with Peru's Ministry of Energy and Mines in December 2008.

Results of Continuing Operations

During the period ended December 31, 2008, the Corporation incurred losses from continuing operations related to the Corporation's international oil and gas exploration and development activities. The losses from continuing operations totaled \$1,955,398 as compared to losses of \$1,817,941 for the 11 months ended December 31, 2007. Loss from continuing operations for the quarter ended December 31, 2008 was \$597,931 compared to \$808,356 for the two months ended December 31, 2007. The significant items comprising the losses from continuing operations are described as follows.

General and Administrative

The Corporation incurred general and administrative expenses of \$1,690,410 for the year ended December 31, 2008 as compared to \$428,663 for the 11 months ended December 31, 2007. The increase in these expenses is largely attributable to costs incurred to establish offices in both Canada and Peru, increasing the number of full time employees from 1 to 11 during the current period and legal, accounting, advisory and filing fees incurred as a result of the Company's prospectus offering. General and administrative costs for the quarter ended December 31, 2008 were \$457,853 compared to \$204,273 for the two month period ended December 31, 2007.

Interest on Convertible Debentures

During the year ended December 31, 2008 the Company incurred \$63,375 of interest expense related to the issuance of a \$1,000,000 10% coupon convertible debenture. There was no interest on convertible debentures during the 11 month period ended December 31, 2007. Interest on convertible debentures totaled \$15,375 for the quarter ended December 31, 2008.

Interest on Notes Payable

The Company accrued interest payable of \$34,365 on the Note Payable owing to Petrominerales. There was no amount incurred or accrued on notes payable in the prior period.

Stock Based Compensation

Non-cash stock based compensation totaled \$152,830 for the year ended December 31, 2008, as compared to \$1,403,278 for the 11 month period ended December 31, 2007. Non-cash stock based compensation reflects the fair value of all stock options granted during the year and is amortized over the vesting period of the option. During November 2008, 700,000 stock options granted to an officer and director with a weighted exercise price of \$1.32 were cancelled and reissued with an exercise price of \$0.35. The cancellation of these options for which new options were subsequently issued has been accounted for as a modification of an award. Compensation cost recognized for the year ended December 31, 2008 related to the modified options was \$5,000. Stock based compensation costs for the quarter ended December 31, 2008 was \$72,830 as compared to \$604,278 for the two month period ended December 31, 2007. It should be noted that

Results of Discontinued Operations

During the 11 month period ended December 31, 2007, the Corporation made the decision to discontinue its mining operations and accordingly, wrote-off all costs on the mining property to a fair value of nil. The loss from discontinued operations totaled \$796,660 for the 11 months ended December 31, 2007. There were no losses from discontinued operations incurred in the current period.

Cash Flow

Cash flow from continuing operations before working capital changes (“cash flow”) does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Cash flow includes all cash flow from continuing operating activities and is calculated before changes in non-cash working capital. The most comparable measure calculated in accordance with GAAP would be net earnings. Cash flow is reconciled with net earnings on the Consolidated Statement of Cash Flows and below.

	For the year ended December 31, 2008	For the 11 months ended December 31, 2007
Cash flow from continuing operations	\$ (1,900,415)	\$ (414,663)
Add: changes in non cash working capital	(1,863)	56,855
Cash flow used in continuing operations	\$ (1,902,278)	\$ (357,808)

For the year ended December 31, 2008 the Company had negative cash flow used in continued operations of \$1,902,278 as compared to \$357,808 for the 11 months ended December 31, 2007. The changes in cash flows used in continuing operations reflects the commencement of the Company’s first stage work commitments and establishment and staffing of offices in both Canada and Peru for a full year.

Reconciliation of net earnings to cash flow used in discontinued operations before working capital changes:

	For the year ended December 31, 2008	For the 11 months ended December 31, 2007
Cash flow from discontinued operations	\$ -	\$ (229,477)
Add: changes in non-cash working capital	-	(11,528)
Cash flows used in discontinued operations	\$ -	\$ (241,005)

For the period ended December 31, 2008 the Company had no cash flow from discontinued operations as compared to negative cash flow of \$241,005 in the prior period. The changes in cash flows used in discontinued operations reflect the change in focus from the identification and exploration of mineral resources to international oil and gas exploration and development.

Financing Activities

During the year ended December 31, 2008, the Corporation sold half of the Company's interest in Block 126 and issued a \$1,000,000 convertible debenture in order to finance its operations and ongoing work commitments. These transactions are described below.

Issuance of Notes Payable

During the period ended December 31, 2008, the Company entered into an agreement with Petrominerales Ltd. to sell half of the Company's interest in Block 126. As part of this transaction the Company issued a promissory note payable to Petrominerales of US \$1,400,000 (CDN \$1,705,200). This transaction is described further in the *Pending Transaction* section below. The note has an interest rate of 18% per annum and the principal sum and all unpaid interest is due and payable on the earlier of:

- (i) April 30, 2009; and
- (ii) the date on which the Company transfers a 45% working interest in the Block and all necessary consents and approvals required in connection with such transfer are obtained.

Issuance of Convertible Debentures

During the period ended December 31, 2008, the Company completed a 10% coupon, \$1,000,000 non-brokered private placement unsecured convertible debenture financing. Directors and officers of the Company purchased \$250,000 of the debentures. The conversion price of the debentures was contingent upon the satisfaction of certain conditions on or before December 31, 2008. In the event that these conditions were not met by December 31, 2008, the debentures were automatically convertible at \$0.50 per common share. The convertible debentures bore interest at 10% per annum with interest payable on the earlier of the date of conversion, or December 31, 2008. In the event the principal amount of the debentures is converted into common shares, all interest under the debentures shall be payable through the issuance of common shares. For purposes of determining the number of common shares to be issued to satisfy the obligation to pay interest, each common share shall be deemed to have a value equal to the conversion price of the debenture.

On December 31, 2008, the convertible debentures and accrued interest were converted to common shares at \$0.50 per common share. The number of common shares issued for conversion was 2,126,749 with a stated value of \$1,063,375.

During the year ended December 31, 2008, interest expense of \$63,375 has been included in the statement of operations, of which \$15,844 relates to directors and officers of the Company.

Investing Activities

During the period ended December 31, 2008, the Corporation capitalized cash expenditures of \$1,571,521. These costs related to the reprocessing of over 1,000 km of 2D seismic data which was required to complete the Company's first stage work commitments, and costs related to completing and submitting an environmental impact assessment with the Peruvian Ministry of Energy and Mines. Additionally, the

Company issued 200,000 Common Shares valued at \$0.95 per share as a finder's fee related to the acquisition of the Block. During the 11 month period ended December 31, 2007 the Company had capitalized \$171,098 of cash costs and \$2,500,000 in non-cash Common Stock related to the acquisition of the Block.

Pending Transaction

During November 2008, the Company entered into an agreement with Petrominerales Peru S.A. ("Petrominerales"), to jointly explore Block 126. Under the terms of the agreement, Petrominerales will pay consideration of US \$500,000 to purchase a 45% working interest in the Block. During the year ended December 31, 2008, the Company received US \$100,000 (CDN \$121,800) deposit as an advance on the purchase. If the closing does not occur on or before April 30, 2009, Petrominerales has the right to elect by notice in writing:

- to terminate the agreement whereby the Company will be obligated to repay to Petrominerales the deposit received, plus accrued interest; or
- to terminate the agreement and elect to close the purchase of shares of North American Vanadium Peru S.A.C. ("Veraz Peru") under which the Company agreed to sell 51% of the issued and outstanding shares of Veraz Peru to Petrominerales; or
- to extend the date for closing beyond April 30, 2009 at the sole discretion of Petrominerales.

The agreement is effective November 1, 2008 and closing is to occur on the date of the signing of the public deed by Petrominerales and the Company and Perupetro S.A. ("Perupetro") in order to transfer the 45% working interest to Petrominerales, which is expected to occur by April 30, 2009. The signing of public deed will confirm the recognition of Petrominerales as true working interest partner by Perupetro.

In conjunction with the agreement described above, Petrominerales Peru Ltd. has agreed to fund a portion of the Company's exploration program through a non-interest bearing, non-revolving term loan facility of US \$9,000,000. US \$3,000,000 of the loan facility will be available to the Company upon the closing of the asset agreement described above to the financial statements; and the balance upon the completion of the Environmental Impact Assessment ("EIA") and Perupetro's formal recognition of Petrominerales as a partner to the Exploration Agreement and will be used to fund ongoing operations and the exploration program. Once Petrominerales acknowledges in writing receipt of the final processed seismic from the Company, Petrominerales Peru Ltd. will have the option to either: (a) forgive the loan in its entirety, or (b) demand repayment of the loan. If Petrominerales Peru Ltd. chooses to demand the loan, the Company has the option to either repay the loan in its entirety or convert the loan into common shares of the Company provided that the common shares of the Company are listed on the TSXV and conversion will not result in Petrominerales Peru Ltd. holding more than 49% of the outstanding common shares of the Company. If the Company either repays or converts the loan to Common Shares of the Company, Petrominerales Ltd. will transfer and convey all of its shares and interests in Petrominerales Peru Ltd. to the Company in exchange for \$1.

The loan is secured by the shares of the Company's wholly-owned subsidiary, is noninterest bearing, non-revolving, and all amounts owing shall be paid in full no later than December 31, 2009. The loan will be used to fund exploration activities and working capital requirements.

Share capital

The number of Veraz shares outstanding as at December 31, 2008 was 32,523,580. The increase in shares outstanding was a result of the issuance of 2,126,749 common shares on conversion of a \$1,000,000 debenture and 200,000 common shares issued as a finder's fee related to the acquisition of the Block.

Stock options

During the year, the Company granted 1,850,000 share purchase options with an exercise price of \$0.35. The options vest over a three period and are exercisable over a five year period ending November 24, 2013.

Work commitments

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

	Total	< 1 Year	1-3 Years
Work commitments – Block 126	\$ 1,125,000	-	\$ 1,125,000
Contractual - EIA	280,000	280,000	-
Total	\$ 1,405,000	280,000	1,125,000

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

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

From commencement until commercial production	US \$ 50,000
Upon commercial production of 0 - 30,000 barrels per day	US \$ 80,000
Upon commercial production of 30,001 - 50,000 barrels per day	US \$120,000
Over 50,000 barrels per day	US \$180,000

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

Lease commitments

The Company has lease obligations totaling \$155,129 in 2009 and \$12,125 in 2010.

Capital disclosures

The Company's objective is to maintain a strong capital position in order to be able to fund its proportionate share of the work commitments under the Exploration Agreement. Given that the Company's activities are in the exploration stage, the Company's capital structure includes common share capital, and working capital (current assets minus current liabilities) or net debt. From time to time, in order to maintain or adjust the capital structure, the Company may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels and required work commitments.

The Board of Directors has established that the Company maintain sufficient capital such that working capital is positive and that sufficient capital is available to meet budgeted general and administrative expenses plus the Company's proportionate share of required work commitments for the next 12 months. As at December 31, 2008, the Company had negative working capital of \$1,301,476 (2007 - \$1,266,938) thereby not meeting the required working capital criteria established by the Board. In November 2008, the Company entered into an agreement to sell a 45% working interest in the Block which included the loan agreement noted above which proceeds upon closing will be sufficient to fund the Company's budgeted general and administrative expenses and its proportionate share of required work commitments for 2009.

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

Significant Accounting Policies and Estimates

Going Concern

These consolidated financial statements have been prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of operations. The Company has experienced recurring losses, has not generated profitable operations and as at December 31, 2008, has a working capital deficiency of \$1,301,476 and has accumulated losses of \$8,262,264 since inception. Current oil and gas activities are in the exploration stage and have not identified oil and gas reserves. Current cash resources will not be sufficient to continue the exploration and development activities. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, attain commercial production from its oil and gas properties, and attain future profitable operations. Management's plans to remediate are described under *Pending Transactions*. These consolidated financial statements do not include any adjustments for the recoverability and classification of recorded asset amounts, nor for the classification of liabilities and revenues and expenses that might be necessary should the Company be unable to continue as a going concern.

Oil & Gas Properties

The Company follows the full cost method of accounting for oil and gas properties and facilities whereby all costs associated with the acquisition, exploration for and development of petroleum and natural gas properties and related reserves are capitalized. Such costs include all direct costs relating to the development of the oil and gas properties, the cost of the acquisition of leases, exploration and development and administrative costs directly related to development activities. As the Company's oil and gas activities are in the development stage, any incidental revenues are netted against costs until commercial production begins. When commercial production begins, these capitalized costs will be depleted following the unit-of-production method based on proved reserves.

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

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

Changes in Significant Account Policies

Financial Instruments and Capital Disclosures

On January 1, 2008, the Company adopted new Canadian Institute of Chartered Accountants ("CICA") standards relating to Capital Disclosures, Financial Instruments - Disclosures and Financial Instruments - Presentation. The Company is required to disclose its objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. These new disclosures are included in note 14 to the consolidated financial statements.

The Company is required to disclose the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. Additional guidance is provided on the classification of financial instruments as liabilities or equity, and when netting of financial assets and financial liabilities is appropriate. These items are discussed as follows.

Financial instruments and risk management

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Audit Committee and the Board of Directors of the Company review the adequacy of the risk management framework in relation to these risks. The following outlines the Company's risk exposures, quantifies these risks, and explains how these risks are managed.

(a) Credit risk

The Company is exposed to credit risk in relation to its cash and accounts receivable. The Company maintains cash with highly rated international banks and therefore the Company considers these assets to have negligible credit risk. The Company's accounts receivable is comprised of refundable consumption taxes paid and receivable from the Governments of Canada and Peru and accordingly have negligible credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Company's reputation. The Company continuously monitors forecast and actual cash flows to ensure that it has sufficient funds available to meet current and foreseeable financial requirements at a reasonable cost.

Management believes that future cash flows from proposed financings and borrowings will be adequate to support these financial liabilities. See note *Proposed Transaction* for further details.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. Given that the current oil and gas activities are in the exploration stage and that no oil and gas reserves have been identified, the Company does not use financial derivatives or physical delivery sales contracts and accordingly, commodity price risk is negligible.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as the Company transacts business in both Canada and Peru and purchases goods and services denominated in Canadian Dollars, Peruvian Neuvos Soles and US Dollars. As a result, the Company has both foreign exchange transaction and translation exposure.

(ii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is currently not exposed to interest rate risk as the notes payable described above are subject to a fixed interest rate.

(d) Fair values of financial instruments

The carrying and fair values of the Company's financial instruments as at December 31, 2008 are as follows:

	Carrying Value	Fair Value
<i>Financial assets</i>		
Held for trading		
Cash	\$ 1,136,918	\$ 1,136,918
Loans and other receivables		
Accounts receivable	176,126	176,126
<i>Financial liabilities</i>		
Other financial liabilities		
Accounts payable and accrued liabilities	797,188	797,188
Notes payable	1,733,200	1,733,200
Deposit received on assets held for sale	121,800	121,800

Going Concern

On January 1, 2008, the Company adopted certain amendments to Canadian accounting standards related to General Standards of Financial Statement Presentation with respect to requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of these amendments did not have a significant impact on the financial statements.

Change in Foreign Currency Translation

Effective December 31, 2008, the Company designated its subsidiary NAVI Peru from integrated to self-sustaining. This change was made as it is anticipated that all future income streams and the majority of expenditures will be denominated in US\$. Accordingly, it now uses the US\$ as their functional currency. The Company has prospectively adopted the current rate method of foreign currency translation. Under this method, revenues and expenses are translated using the average exchange rates for the applicable period, assets and liabilities are translated using the exchange rates in effect on the balance sheet dates, and shareholder's equity is translated using historical rates in effect at the date of each transaction. Resulting exchange differences are reported as a separate component of other comprehensive income.

For the year ended December 31, 2008, the Company recorded \$71,442 in accumulated other comprehensive loss with this amount arising from the prospective adoption of the current rate method for foreign currency translation.

Future Accounting Pronouncements

Goodwill and Intangible Assets

As of January 1, 2009, the Company will be required to adopt new standards for Goodwill and Intangible Assets. New standards have been established for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous CICA Handbook Section 3062. The adoption of these new standards is not expected to have any impact on the financial statements.

In January 2009, the Accounting Standards Board of the CICA ("AcSB") issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The

Company plans to adopt this standard prospectively effective January 1, 2009 and does not expect the adoption of this standard to have any impact on results of operations or financial position.

Consolidated Financial Statements and Non-controlling Interests

In January 2009, the AcSB issued Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company plans to adopt these standards effective January 1, 2009 and does not expect the adoption will have any impact on results of operations or financial position.

International Financial Reporting Standards ("IFRS")

The AcSB has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") will be effective January 1, 2011. The Company has performed an initial scoping process in order to ensure successful implementation within the required timeframe. The impact on the Company's consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

Outlook

The Company recently was able to raise additional funds through a sale to Petrominerales of a 45% undivided interest in Block 126. Upon closing this transaction the Company will be in a position to fully fund its proportionate share of work commitments for the second work period under the License Contract.

The Company will require additional funding beyond 2009 to meet its proportionate share of the third and fourth period work commitments under the License Contract which may be funded through additional transactions similar to that recently signed with Petrominerales, or through the sale of common shares through public or private offerings. The Company's ability to successfully raise funds from the equity markets will largely depend upon general market conditions, the Company's ability to achieve certain exploration milestones and its ability to acquire new properties.

The Company has completed the first period work commitments under the License Contract and has posted its proportionate share of the required letter of guarantee (USD \$1,125,000) for the second work period. The Company further anticipates receiving approval of its Environmental Impact Assessment early in Q2 of 2009 which will allow Veraz to acquire additional 2D and 3D seismic data during the year at an estimated cost of USD \$12,000,000.

The Company's authorized share capital consists of an unlimited number of Common Shares. As at December 31, 2008, the number of shares outstanding was 32,523,580. Common shares issued during the quarter ended December 31, 2008 totaled 2,126,749 with an additional 200,000 common shares having been issued previously in the year.

During the period ended December 31, 2008, shareholders' equity decreased to \$3,317,401 from \$3,938,036 as at December 31, 2007. The decline in shareholders' equity of \$620,635 was the result of losses incurred during the year of \$1,955,398 which was partially offset by an increase of \$1,253,375 in share capital as a result of stock issued during the year.

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

	2008				2007			
	Three Months Ended				Two Months Ended	Three Months Ended		
	Dec 31	Sep 30	Jun 30	Mar 31		Dec 31	Oct 31	Jul 30
Interest income	663	1,216	2,088	3,570	195	2,109	5,534	6,162
Loss from continuing operations	598,471	827,481	197,926	332,060	790,201	285,481	523,401	219,198
Loss from discontinued operations	-	-	-	-	572,103	12,173	123,301	89,083
Loss and comprehensive loss	598,471	827,481	197,926	332,060	1,362,304	297,314	646,702	308,281
Loss per share from continued operations, Basic	0.02	0.03	0.01	0.01	0.03	0.01	0.02	0.01
Diluted	0.02	0.02	0.01	0.01	0.03	0.01	0.02	0.01
Loss per share from discontinued operations, basic and diluted	-	-	-	-	0.02	0.00	0.00	0.00
Loss per share, Basic	0.02	0.03	0.01	0.01	0.05	0.01	0.02	0.01
Diluted	0.02	0.02	0.01	0.01	0.05	0.01	0.02	0.01
Weighted average shares outstanding for the period (000's)								
Basic	30,397	30,397	30,221	30,197	8,188	26,851	26,025	26,063
Diluted	32,397	32,397	30,221	30,197	8,188	26,851	26,025	26,063