

**Veraz Petroleum Ltd.**  
***CONSOLIDATED FINANCIAL STATEMENTS***  
**For the Nine Month Period ended September 30,**  
**2009**  
*(unaudited)*

**Veraz Petroleum Ltd.**  
**Consolidated Balance Sheets**  
*(unaudited)*

	September 30, 2009	December 31, 2008
<b>Assets</b>		
Current assets		
Cash	\$ 408,926	\$ 1,136,918
Accounts receivable	205,423	176,126
Prepaid expenses and deposits	47,712	37,668
	<u>662,061</u>	1,350,712
Property and equipment (note 3)	<u>5,325,360</u>	4,618,877
	<u>\$ 5,987,421</u>	<u>\$ 5,969,589</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 187,405	\$ 797,188
Notes payable (note 4)	3,532,553	1,733,200
Deposit received (note 3)	107,220	121,800
	<u>3,827,178</u>	2,652,188
<b>Shareholders' Equity</b>		
Share capital (note 5)	9,786,106	9,791,539
Contributed surplus (note 6)	2,033,568	1,859,568
Deficit	(9,215,078)	(8,262,264)
Accumulated other comprehensive loss	(444,353)	(71,442)
	<u>(9,659,431)</u>	(8,333,706)
	<u>2,160,243</u>	3,317,401
	<u>\$ 5,987,421</u>	<u>\$ 5,969,589</u>

Going concern (note 1)  
 Commitments (note 8)

**Approved by the Board**

\_\_\_\_\_, Director  
 "Trevor Mitzel"

\_\_\_\_\_, Director  
 "Paul Baay"

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

# Veraz Petroleum Ltd.

## Interim Consolidated Statement of Operations, Comprehensive Loss and Deficit

(unaudited)

	Three Months Ended September 30th		Nine Months Ended September 30th	
	2009	2008	2009	2008
<b>Interest income</b>	\$ 2	\$ 1,216	\$ 29	\$ 6,874
<b>Expenses</b>				
General and administrative	271,432	778,722	889,902	1,232,567
Foreign exchange gains (note 1)	(269,170)	-	(368,431)	-
Interest on notes payable	91,867	48,000	250,939	48,000
Stock-based compensation	58,000	-	174,000	80,000
Depreciation	2,185	1,975	6,433	3,774
	<b>154,314</b>	<b>828,697</b>	<b>952,843</b>	<b>1,365,341</b>
<b>Net loss for the period</b>	<b>(154,312)</b>	<b>(827,481)</b>	<b>(952,814)</b>	<b>(1,357,467)</b>
Other comprehensive loss				
Cumulative translation adjustment (note 1)	(244,018)	-	(372,911)	-
<b>Comprehensive loss for the period</b>	<b>(398,330)</b>	<b>(827,481)</b>	<b>(1,325,725)</b>	<b>(1,357,467)</b>
<b>Deficit, beginning of period (note 1)</b>	<b>(9,060,766)</b>	<b>(6,836,852)</b>	<b>(8,262,264)</b>	<b>(6,306,866)</b>
Net loss for the period	(154,312)	(827,481)	(952,814)	(1,357,467)
<b>Deficit, end of period</b>	<b>\$ (9,215,078)</b>	<b>\$ (7,664,333)</b>	<b>\$ (9,215,078)</b>	<b>\$ (7,664,333)</b>
<b>Total income (loss) per share</b>				
Basic and diluted – note 7	\$ 0.00	\$ (0.01)	\$ (0.03)	\$ (0.02)

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

**Veraz Petroleum Ltd.**  
**Interim Statement of Cash Flows**

(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Net loss	\$ (154,312)	\$ (827,481)	\$ (952,814)	\$ (1,357,467)
Items not affecting cash				
Unrealized foreign exchange gains	(248,724)	-	(278,088)	-
Stock-based compensation	58,000	-	174,000	80,000
Depreciation	2,185	1,975	6,433	3,774
	<b>(342,851)</b>	<b>(825,506)</b>	<b>(1,050,469)</b>	<b>(1,273,693)</b>
Changes in non-cash working capital	<b>(162,947)</b>	<b>604,469</b>	<b>(651,409)</b>	<b>574,893</b>
	<b>(505,798)</b>	<b>(221,037)</b>	<b>(1,701,878)</b>	<b>(698,800)</b>
<b>Investing activities</b>				
Property and equipment expenditures	(491,065)	(90,620)	(1,073,576)	(1,139,292)
Changes in non-cash working capital	154,817	(21,349)	(30,424)	(74,949)
	<b>(336,248)</b>	<b>(111,969)</b>	<b>(1,104,000)</b>	<b>(1,214,241)</b>
<b>Financing activities</b>				
Share issue costs	-	-	(5,433)	-
Proceeds from issuance of note payable	504,314	-	2,080,434	-
Changes in non-cash working capital	29,971	-	31,924	-
Proceeds from issuance of convertible debenture	-	-	-	1,000,000
	<b>534,285</b>	<b>-</b>	<b>2,106,925</b>	<b>1,000,000</b>
<b>Effect of exchange rate changes on cash</b>	<b>(46,196)</b>	<b>-</b>	<b>(29,039)</b>	<b>-</b>
<b>Increase (decrease) in cash</b>	<b>(353,957)</b>	<b>(333,006)</b>	<b>(727,992)</b>	<b>(913,041)</b>
<b>Cash, beginning of period</b>	<b>762,883</b>	<b>771,758</b>	<b>1,136,918</b>	<b>1,351,793</b>
<b>Cash, end of period</b>	<b>408,926</b>	<b>438,752</b>	<b>408,926</b>	<b>438,752</b>

**Veraz Petroleum Ltd.**  
**Notes to Consolidated Financial Statements**  
**Period ended September 30, 2009**

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**Veraz Petroleum Ltd.**

**Consolidated Statement of Cash Flows**

**1. Nature of operations**

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

The unaudited consolidated financial statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") using the same accounting policies and methods of computation as the annual audited consolidated financial statements for the year ended December 31, 2008 except as described in note 2 below. The disclosures provided below are incremental to those included in the annual audited consolidated financial statements. The consolidated financial statements as at and for the nine month ended September 30, 2009 should be read in conjunction with the annual audited consolidated financial statements and the notes thereto as at December 31, 2008 and for the year then ended.

**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 September 30, 2009, has a working capital deficiency of \$3,165,117 and has accumulated losses of \$9,215,078 since inception. Current oil and gas activities are in the exploration stage and have not identified oil and gas reserves. Current cash resources will not be sufficient to continue the exploration and development activities. These matters raise doubt about the ability of the Company to continue to meet its obligations as they become due. Continuing operations are dependent on the ability to obtain adequate funding to finance existing operations, attain commercial production from its oil and gas properties and attain future profitable operations. Management's plans to remediate are described in note 3. 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.

**Veraz Petroleum Ltd.**  
**Notes to Consolidated Financial Statements**  
**Period ended September 30, 2009**

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**2. Significant accounting policies**

**(a) Changes in significant accounting policies**

**(i) Correction of Errors**

The Company has applied the standard for correction of errors to the comparative information for the three month periods ended March 31, and June 30, 2009 as it relates to the opening retained earnings for the current period. The comparative information has been retrospectively restated to correct an error in the calculation of the Company's foreign exchange gains and losses. The following table provides information on the amount of the correction for the three month period ended September 30, 2009.

		Foreign exchange (gains) losses	Adjusted Foreign exchange (gains) losses	<i>Adjustments</i>
March 31, 2009	\$	(31,059)	56,031	87,090
June 30, 2009		97,681	(155,292)	(252,973)
Total				<u>(165,883)</u>
Deficit – June 30, 2009				9,226,649
Adjusted deficit – June 30, 2009				<u><u>9,060,766</u></u>

**(ii) Goodwill and Intangible Assets**

As of January 1, 2009, the Company adopted 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. The adoption of these new standards did not have any impact on the consolidated financial statements.

**Veraz Petroleum Ltd.**  
**Notes to Consolidated Financial Statements**  
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**(b) Future accounting pronouncements**

**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 expected to be significant considering the relatively short time period the Company has been engaged in oil and gas exploration and development activities and that the Company has a single non-producing exploration asset. Key information will be disclosed as it becomes available during the transition period.

As of January 1, 2011 the Company will be required to adopt the following CICA Handbook sections:

**Business Combinations**

"Business Combinations", Section 1582, which replaces the previous business combinations standard. The standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the date of acquisition. In addition, acquisition-related and restructuring costs are to be recognized separately from the business combination and included in the statement of earnings. The adoption of this standard will impact the accounting treatment of future business combinations.

**Consolidated Financial Statements**

"Consolidated Financial Statements", Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

**Non-controlling Interests**

"Non-controlling Interests", Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. The adoption of this standard should not have a material impact on the Company's consolidated financial statements.

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**Notes to Consolidated Financial Statements**  
**Period ended September 30, 2009**

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**3. Property and equipment**

	<b>September 30, 2009</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Oil and natural gas properties	\$ 5,205,822	\$ -	\$ 5,205,822
Equipment	131,847	12,309	119,538
	<b>\$ 5,337,669</b>	<b>\$ 12,309</b>	<b>\$ 5,325,360</b>

  

	<b>December 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Oil and natural gas properties	\$ 4,480,727	\$ -	\$ 4,480,727
Equipment	144,917	6,767	138,150
	<b>\$ 4,625,644</b>	<b>\$ 6,767</b>	<b>\$ 4,618,877</b>

- (a) During the period ended September 30, 2009, the Company capitalized general and administrative expenses in the amount of \$322,214 (\$324,670 - December 31, 2008, \$396,485 – September 30, 2008).

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

- (b) 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 \$107,220) deposit as an advance on the purchase. On April 28, 2009, Veraz reached an agreement to amend the closing date of the transaction from April 30, 2009 to August 31, 2009, and then further amended the closing date on August 31, 2009 to December 19, 2009. The extension was required as final approval of the transaction by the Peruvian Government is still pending. If the closing does not occur on or before December 19, 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 Veraz Petroleum 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

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- to extend the date for closing beyond December 19, 2009 at the sole discretion of Petrominerales.

The agreement was 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. The signing of public deed will confirm the recognition of Petrominerales as true working interest partner by Perupetro.

- (c) 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 in note 3(b); and the balance upon the completion of the Environmental Impact Assessment ("EIA") and Perupetro's and the Peruvian governments 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 TSX-V 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 non-interest bearing, non-revolving, and all amounts owing shall be paid in full no later than March 31, 2010. The loan will be used to fund exploration activities and working capital requirements.

**4. Notes payable**

- (a) Notes payable includes an amount of \$28,000 which is non-interest bearing and due on demand.
- (b) Promissory notes payable of US \$3,268,563 (CDN \$3,504,553) relate to the loan agreement described in note 3(c). The note initially had an interest rate of 18% per annum, which was revised to 12% per annum effective May 1, 2009. The principal sum and all unpaid interest is due and payable on the earlier of:
- (i) December 19, 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.

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**Notes to Consolidated Financial Statements**  
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**5. Share capital**

**(a) Common Shares**

Authorized:

Unlimited number of common shares without par value

Issued and outstanding:

	<b>September 30, 2009</b>	
	<b>Shares</b>	<b>Amount</b>
Balance, beginning of period	32,523,580	\$ 9,791,539
Shares issue costs	-	(5,433)
Balance, end of period	32,523,580	\$ 9,786,106

**(b) Stock Options**

As at September 30, 2009, the following options have been issued and remain outstanding:

	<b>2009</b>	
	<b>Options outstanding</b>	<b>Weighted average exercise price per share</b>
Balance, beginning of period	<b>2,570,000</b>	<b>\$ 0.35</b>
Granted during the period	<b>50,000</b>	<b>0.15</b>
Balance, end of period	<b>2,620,000</b>	<b>\$ 0.35</b>
Options exercisable, end of period	-	\$ -

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

	<b>2009</b>
Fair value	<b>\$0.07</b>
Average risk-free interest rate	<b>2.1%</b>
Expected life	<b>3 years</b>
Expected volatility	<b>139%</b>
Expected dividend	<b>\$NIL</b>

**6. Contributed surplus**

	<b>September 30, 2009</b>
Balance, beginning of period	<b>\$ 1,859,568</b>
Stock-based compensation expense	<b>174,000</b>
Balance, end of period	<b><u>\$ 2,033,568</u></b>

**7. Per share amounts**

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

	<b>September 30, 2009</b>	December 31, 2008
Basic	<b>32,523,580</b>	30,196,831
Diluted	<b>32,523,580</b>	30,196,831

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

**Veraz Petroleum Ltd.**  
**Notes to Consolidated Financial Statements**  
**Period ended September 30, 2009**

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**8. Commitments**

**(a) Work commitments**

- (i) During the period ended December 31, 2007, the Company entered into a License Contract to explore Ucayali Block 126, located in east central Peru, South America (the "Exploration Agreement"). The license is comprised of a four stage, seven-year work commitment where the Company has the right to withdraw from the license at the end of each period associated with the term of the license.

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

The Company has completed the first stage work commitment and in December 2008, and subject to the transaction described in note 3 (b), has issued a letter of guarantee of US \$1,125,000 representing the Company's proportionate share of the second stage work commitment, replacing the letter of guarantee previously issued for the first stage work commitment.

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

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

**(b) Lease commitments**

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

2009	\$ 33,560
2010	11,125

**Veraz Petroleum Ltd.**  
**Notes to Consolidated Financial Statements**  
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**9. Capital disclosures**

The Company's objective is to maintain a strong capital position in order to be able to fund its proportionate share of the work commitments under the Exploration Agreement.

Given that the Company's activities are in the exploration stage, the Company's capital structure includes common share capital, convertible debentures and working capital (current assets minus current liabilities) or net debt. From time to time, in order to maintain or adjust the capital structure, the Company may issue common shares or other securities, sell assets or adjust its capital spending to manage current and projected debt levels and required work commitments.

The Board of Directors has established that the Company maintains sufficient capital such that working capital is positive and that sufficient capital is available to meet budgeted general and administrative expenses plus the Company's proportionate share of required work commitments for the next 12 months. As at September 30, 2009, the Company had negative working capital of \$3,165,117 (December 31, 2008 - \$1,301,476) thereby not meeting the required positive 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 proceeds of the loan facility as described in note 3(c) 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.

**10. 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 low credit risk.

The Company's accounts receivable is comprised of \$134,813 from the Government of Canada related to refundable goods and services tax and accordingly have negligible credit risk.

The remaining amount of \$70,610 relates to amounts owing to the Company from its joint venture partner. Management does not believe that this concentration of credit risk will result in any loss to the Company based on past payment experience. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with large and reputable joint venture partners. However, the receivables are from participants in the oil and gas sector and collection of the outstanding balances is dependent on industry factors and therefore subject to credit risk.

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The Company does not have an allowance for doubtful accounts as at September 30, 2009 and did not provide for any doubtful accounts nor was it required to write-off any accounts receivable during the period ended September 30, 2009.

**(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 notes 1 and 3 for further details.

**(c) Market risks**

At September 30, 2009, there have been no significant changes to market risks as disclosed in the audited consolidated financial statements at December 31, 2008.

**(d) Fair values of financial instruments**

The carrying and fair values of the Company's financial instruments as at September 30, 2009 are as follows:

	Carrying Value	Fair Value
<b><u>Financial Assets</u></b>		
Held-for trading:		
Cash	\$ 408,926	\$ 408,926
Loans and receivables:		
Accounts receivable	205,423	205,423
<b><u>Financial Liabilities</u></b>		
Other financial liabilities		
Accounts payable and accrued liabilities	187,405	187,405
Notes payable	3,532,553	3,532,553
Deposit	107,220	107,220