

VERAZ PETROLEUM LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009

The following is dated as of October 31, 2009 and should be read in conjunction with the interim consolidated financial statements of Veraz Petroleum Ltd. ("Veraz" or the "company") for the three and nine months ended September 30, 2009 and 2008.

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 Three and Nine Months Ended September 30, 2009 and 2008

General

The Corporation is a junior resource exploration stage company that focuses its business activities on international oil and gas exploration and development.

Highlights and Significant Transactions

- On August 25, 2009 the Company received approval of its transaction with Petrominerales Ltd. ("Petrominerales") from the Board of Directors of Perupetro. The transaction will close upon approval from the Peruvian government which is anticipated by December 19, 2009;
- On August 31, 2009, the Company secured an extension to the closing date of its transaction with Petrominerales from August 31, 2009 to December 19, 2009 as it awaits the approval of the transaction from the Peruvian Government. Under the Petrominerales transaction, the Company will sell half of its interest in Block 126 for total consideration of USD \$9.5 million;
- In mid-September 2009, the Company engaged South American Exploration, a Peruvian-based seismic contractor to commence a planned 150 square kilometer 3D and 50 kilometer 2D seismic program. The Company anticipates completing the acquisition of seismic data by year end.

Results of Continuing Operations

During the three and nine month periods ending September 30, 2009, the Corporation had net losses totaling \$154,312 and \$952,814 as compared to losses of \$827,481 and \$1,357,467 for the same periods a year earlier. The significant items comprising the losses are described as follows.

General and Administrative

The Corporation incurred general and administrative expenses of \$271,432 and \$889,902 for the three and nine months ended September 30, 2009 as compared to general and administrative expenses of \$778,722 and \$1,232,567 for the same periods in the prior year. The decrease in these expenses from the comparative periods is largely attributable to a decrease in professional fees of approximately \$618,500 which fees were incurred during the Company's prospectus offering in July 2008. The decrease in professional fees from the prior comparative periods have been offset by increases in wages and benefits in both Canada and Peru in 2009 as a result of increases in staff and from the Company capitalizing smaller proportions of wages and benefits in Peru.

Foreign Exchange Gains

Foreign Exchange gains during the three and nine month periods ending September 30, 2009 include both realized and unrealized foreign exchange gains and losses which totaled \$269,170 and \$368,431 respectively. The Company incurs unrealized foreign exchange gains and losses on the translation of USD denominated amounts into CAD for reporting purposes. The gains have been increasing as a result of the narrowing of the USD/CAD exchange rate since the beginning of 2009. Foreign Exchange gains and losses were included in General and Administrative Expenses in the prior comparative periods.

Interest on Notes Payable

During the quarter ended September 30, 2009 the Company incurred \$91,867 of interest expense related to the USD \$3.27MM Note Payable owing to Petrominerales. This is a slight increase from the previous quarter of \$79,920 as a result of USD \$2.8MM of the Note Payable being outstanding for the entire third quarter, but being offset by declines in the USD/CAD exchange rate. It should be noted that the interest rate on the Note Payable was reduced from 18% to 12% effective May 1, 2009 upon the extension of the closing date of the transaction on April 28, 2009. Interest on Notes Payable during the three month period ended September 30, 2008 totaled \$48,000 and related to the Convertible Debenture that was outstanding at that time.

Stock Based Compensation

Non-cash stock based compensation totaled \$58,000 for the quarter ended September 30, 2009, and \$174,000 for the nine months then ended as compared to \$nil and \$80,000 for the comparative periods the prior year. Non-cash stock based compensation reflects the fair value of all stock options outstanding and is amortized over the vesting period of the option.

Cash Flow

Cash flow from 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 from operations 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.

	Three months ended		Nine months ended	
	September 30,		September 30, 2009	
	2009	2008	2009	2008
Cash flow from operations	\$ (342,851)	(825,506)	\$ (1,050,469)	(1,273,693)
Add: changes in non cash working capital	(162,947)	604,469	(651,409)	574,893
Cash flow used in operations	(505,798)	(221,037)	(1,701,878)	(698,800)

For the three and nine months ended September 30, 2009 the Company had negative cash flows used in operations of \$505,798 and \$1,701,878 as compared to \$221,037 and \$698,800 for the same period in the prior year. The increase in cash flows used in operations are largely the result of the Company having paid down accounts payable related to professional fees incurred in the prior year.

Investing Activities

During the three and nine month periods ended September 30, 2009, the Corporation capitalized cash expenditures, including changes in non-cash working capital of \$336,248 and \$1,104,000 as compared to \$111,969 and \$1,214,241 in the prior year’s comparable periods. The increase in costs in the three month period ended September 30, 2009 as compared to the prior year, is largely attributable to the corporation having commenced a 2D and 3D seismic program in the current period.

Financing Activities

During the quarter ended September 30, 2009, the Corporation received proceeds \$504,314 under a promissory note payable to Petrominerales Ltd., and has received a total of \$2,080,434 for the nine months then ended. The Company received proceeds of \$1.0MM CAD under a convertible debenture issuance during the nine month period a year earlier. The changes in non-cash working capital as it relates to financing activities reflects changes in the interest payable under the promissory note.

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 \$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
- 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, the Company and Perupetro S.A. ("Perupetro") in order to transfer a 45% working interest to Petrominerales. The signing of public deed will confirm the recognition of Petrominerales as a 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; 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 a 60 day election period 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 noninterest 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.

Share capital

The number of Veraz shares outstanding as at September 30, 2009 was 32,523,580. There have been no changes in share capital during 2009. The increase in shares outstanding from the comparative periods a year earlier is due to common shares that were issued 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

The Company granted no stocks options during the three month period ended September 30, 2009 and 50,000 stock options during the nine month period ending September 30, 2009. There were no stock options granted in the prior year comparative periods.

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	>3 Years
Second Stage	\$ 2,500,000	-	\$ 2,500,000	\$ -
Third Stage	1,125,000	-	1,125,000	-
Fourth Stage	1,125,000	-	-	1,125,000

Subject to the completion of the Petrominerales transaction described above (see “*Pending Transaction*”) the Company’s work commitments are comprised 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. Prior to December 31, 2008, the Company posted a USD \$1,125,000 Letter of Guarantee representing the Company’s proportionate share of the Second Stage work commitments described above.

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*”.

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 September 30, 2009, the Company had negative working capital of \$3,165,117 as compared to negative working capital of \$1,301,476 as at December 31, 2008 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.

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 "Pending Transaction" for further details.

(c) Market risk

As at September 30, 2009, there have been no significant changes to market risks as disclosed in the audited 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:

	<u>Carrying Value</u>	<u>Fair Value</u>
<i>Financial assets</i>		
Held for trading		
Cash	\$ 408,926	\$ 408,926
Loans and other receivables		
Accounts receivable	205,423	205,423
<i>Financial liabilities</i>		
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

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 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.

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.

Changes in Significant Account Policies

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.

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.

Outlook

The Company was able to enter into an agreement 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 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 received approval of its Environmental Impact Assessment from the government of Peru's Ministry of Energy and Mines on May 29, 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 acquisition of this seismic data commenced in mid-September 2009 and is expected to be completed by year end, with processing and analysis of the information expected to be completed during Q1 of 2010.

The Company's authorized share capital consists of an unlimited number of Common Shares. As at September 30, 2009, the number of shares outstanding was 32,523,580. No Common Shares have been issued in 2009.

During the period ended September 30, 2009, shareholders' equity decreased to \$2,160,243 from \$3,317,401 as at December 31, 2008. The decline in shareholders' equity was the result of losses incurred during the period, share issuance costs, accumulated and other comprehensive losses which were partially offset by an increase to contributed surplus as a result of stock based compensation charges.

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.

	Three Months Ended							Two Months Ended
	2009			2008			2007	
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Interest income	2	10	16	663	1,216	2,088	3,570	194
Loss from continuing operations	154,312	482,466	481,919	597,931	827,481	197,926	332,060	790,201
Loss from discontinued operations	-	-	-	-	-	-	-	572,103
Loss and comprehensive loss	398,330	432,621	457,495	597,931	827,481	197,926	332,060	1,362,304
Loss per share from continued operations, Basic	0.00	0.01	0.01	0.02	0.03	0.01	0.01	0.03
Diluted	0.00	0.01	0.01	0.02	0.02	0.01	0.01	0.03
Loss per share from discontinued operations, basic and diluted	-	-	-	-	-	-	-	0.02
Loss per share, Basic	0.00	0.01	0.01	0.02	0.03	0.01	0.01	0.05
Diluted	0.00	0.01	0.01	0.02	0.02	0.01	0.01	0.05
Weighted average shares outstanding for the period (000's)								
Basic	32,524	32,524	32,524	30,397	30,397	30,221	30,197	28,046
Diluted	32,524	32,524	32,524	32,397	32,397	30,221	30,197	28,046