

Exploring and Servicing Onshore Brazil

Management Discussion and Analysis Year Ended June 30, 2008

October 28, 2008

CAUTIONARY NOTE

This Management's Discussion and Analysis ("MD&A") of financial results and related data is reported in Canadian dollars, has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"), and should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2008 and the notes thereto. Additional information relating to the Corporation is on SEDAR at www.sedar.com or on the Corporation's web site at www.brazalta.com.

Information provided herein in respect of barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Certain information set forth in this document contains forward-looking statements. All statements other than historical fact contained herein are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, production rates and plans and objectives of or involving the Corporation. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond the Corporation's control, including the impact of general economic conditions, industry conditions, governmental regulation, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. In particular to forward-looking comments in this MD&A readers are cautioned that there can be no assurance that: the Corporation will fully realize all the expected revenue on Petrobras drilling contracts expected; the Corporation will be able to increase production in Brazil and achieve expected variable cost efficiencies and an overall reduction of costs on a per barrel basis; that hydrocarbon based royalties assessed by the Brazilian government will remain the same and will continue to be applied on a sliding scale basis downward as production increases on any one block; or the Corporation will be successful in streamlining and reducing costs in the drilling services subsidiary resulting in reduced operating losses and future potential profits. Readers are also cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. The Corporation'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 the Corporation will derive there from. Readers are further cautioned not to place undue reliance on any forward-looking information.

As At and For the Three and Twelve Months Ended								
	Three Months Ended June 30,				Year Ended June 30,			
FINANCIAL RESULTS	2008		2007		2008		2007	
<i>(\$000s), except share data</i>								
Petroleum and natural gas sales, net								
Brazil	1,515		728		4,800		3,156	
Canada	33		122		140		284	
	1,549		850		4,940		3,440	
Drilling services revenue	9,702		1,818		22,965		3,185	
Interest and other	234		44		596		433	
	11,485		2,712		28,501		7,058	
Cash (used in) from operating activities	48		(1,755)		(6,762)		(5,266)	
Per share - basic and diluted	0.00		(0.03)		(0.08)		(0.09)	
Net loss	(8,479)		(3,359)		(17,581)		(7,973)	
Per share - basic and diluted	(0.09)		(0.05)		(0.21)		(0.13)	
Capital expenditures								
Brazil	(46)		1,246		9,748		9,460	
Canada	7,649		(96)		7,925		305	
Northern Ireland	12		-		13		-	
Brazil drilling services	2,143		843		43,804		11,811	
	9,758		1,993		61,490		21,576	
Total assets	111,613		39,521		111,613		39,521	
Total long-term liabilities	39,902		343		39,902		343	
Weighted average shares outstanding								
Basic and diluted (000s)	90,085		65,994		85,198		61,139	
OPERATING RESULTS								
	2008		2007		2008		2007	
Production	<u>Brazil</u>	<u>Canada</u>	<u>Brazil</u>	<u>Canada</u>	<u>Brazil</u>	<u>Canada</u>	<u>Brazil</u>	<u>Canada</u>
Crude oil and NGLs (bbl/d)	159	1	118	2	159	1	135	2
Natural gas (mcf/d)	-	31	-	127	-	63	-	108
Total (boe per day)	159	6	118	23	159	12	135	20
Average prices								
Crude oil (\$/bbl)	125.73		69.61		98.06		71.49	
Oil equivalent (\$/boe)	125.73	60.95	69.61	64.92	98.06	45.66	71.49	44.87
Operating netback (\$/boe)								
Commodity revenue	125.73	60.95	69.61	64.92	98.06	45.66	71.49	44.87
Non-refundable sales taxes	(10.73)	-	(2.16)	-	(8.23)	-	(2.11)	-
Realized loss on financial derivatives	(20.90)	-	-	-	(9.83)	-	-	-
Royalties	(10.43)	(5.72)	(5.22)	(7.70)	(7.55)	(13.24)	(4.98)	(6.20)
Transportation & processing	(12.56)	-	(10.71)	-	(12.54)	-	(12.12)	-
Well workover & repair	(0.15)	-	-	-	(6.44)	-	(7.79)	-
MEP work unit provision	(50.85)	-	-	-	(22.77)	-	-	-
Operating expenses	(26.17)	(10.61)	(45.77)	(14.04)	(26.53)	(22.13)	(22.17)	(11.86)
Netback ⁽¹⁾	(6.05)	44.61	5.75	43.18	4.18	10.29	22.32	26.81

⁽¹⁾ "Netback" per boe is calculated as revenues net of sales taxes and royalties, less transportation & processing charges, well workover and repair, operating expenses and then divided by boe produced. Netbacks do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. Management feels this is a useful metric as it is a common metric used by other companies operating in the oil and gas industry.



2008 IN REVIEW

- For the year ended June 30, 2008, in Brazil, BrazAlta drilled 6 (2.5 net) exploration wells of which 5 (2 net) were unsuccessful and abandoned and 1 (.5 net) is still on long-term production test being evaluated, in addition BrazAlta drilled 2 successful (1 net) new development wells.
- Brazilian net production to the Corporation averaged 159 bbl/day during 2008 up from 135 bbl/day during 2007 for an increase of 24 bbl/day over 2007. The increase was the result of the 2 (.5 net) new successful wells drilled and on production and several successful workovers performed during the year. Canadian net production averaged 12 boe/day which was down from 2007 production of 20 boe/day due to a general overall decline in production and certain production shut-in awaiting new tie-ins.
- The drilling services subsidiary, BCH Ltd. ("BCH"), expanded its fleet to a total of seven rigs comprised of six drilling rigs and one service during the year, an increase of 4 drilling rigs from the prior year.
- During 2008 BCH secured two additional drilling service contracts with Petróleo Brasileiro S.A. ("Petrobras") bringing the total number of rigs contracted with Petrobras to six.
- In order to service contracts with Petrobras, BCH established three new field bases throughout Brazil during 2008 in Mossoró, Rio Grande de Norte; Aracaju, in Sergipe; and São Mateus, Espírito Santo complementing its main field office in Catu, Bahia and in-country head office in Rio de Janeiro.
- In August 2007 BCH, closed a senior secured medium term loan credit facility of US\$30.0 million. Two draws were completed on the facility for a total of US\$28.2 million of which US\$3.2 million had been repaid as at June 30, 2008 bringing the balance outstanding to US\$25 million.
- In August 2007, BrazAlta and its Brazilian joint venture partner, W. Washington, jointly closed a reserves based US\$50.0 million revolving line of credit facility. W. Washington is the borrower under the credit agreement, and at the time based on the lender's evaluation of reserves estimates, completed a first draw on the facility of US\$9.0 million gross (US\$4.3 million net), which was the balance outstanding at June 30, 2008.
- In December 2007, BrazAlta completed a brokered private placement of 9,917,364 Common Shares of the Corporation at a price of \$0.55 per Common Share for aggregate gross proceeds of \$5,454,550. An additional 82,636 Common Shares for gross proceeds of \$45,450 were issued on a non-brokered basis to Brazilian based employees of BrazAlta, for total gross proceeds of \$5,500,000. Management and insiders of the Corporation took part in approximately 12% of the financing and acquired 1,144,364 Common Shares in the financing.
- On January 31, 2008 BCH issued a US\$40 million Convertible Subordinated Secured Debenture (the "Debenture") to Allis-Chalmers Energy Inc. ("Allis-Chalmers"). The Debenture bears interest at a rate of 15% payable annually, and matures January 31, 2010. It is convertible at any time prior to maturity, at Allis-Chalmers' option, into common shares of BCH at a conversion price of US\$4.163 per BCH common share, equating to approximately 49% of the post-conversion outstanding common shares.

The Debenture does not provide Allis-Chalmers recourse to BrazAlta for the loan. In addition on January 31, 2008, the Corporation entered into an agreement with Allis-Chalmers ("Option Agreement") whereby Allis-Chalmers will have the option to acquire the remaining outstanding shares of BCH from BrazAlta on or about maturity of the Debenture, at fair market value, such value to be determined by a mutually agreed upon third party valuator.

- As part of the Round 9 auction held November 28, 2007, the the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis ("ANP"), Brazil's National Petroleum Agency, awarded BrazAlta three blocks in the on-shore Espírito Santo basin ("Espírito Santo Blocks") located in Central Eastern Brazil. The Espírito Santo Blocks acquired in Round 9 are known as Blocks ES-T-318, ES-T-362, and ES-T-380. These exploration blocks cover approximately 30 square kilometres each. Subsequent to year-end, the Corporation entered into a farm-in agreement with Benchmark Energy Corp. on these properties. Refer to Subsequent Events During Q1-F2009 below for additional details. In addition, as part of the Round 9 auction, the ANP awarded a consortium led by W.Washington and including BrazAlta, Brownstone, and Petro Latina two onshore blocks known as REC-T-170 and REC-T-169, covering approximately 28 square kilometres each in the Recôncavo area of North Eastern Brazil. The first exploration phase on these blocks is for a three year term.

HIGHLIGHTS FROM Q4 2008

- Brazilian net production to the Corporation averaged 159 bbl/day down from 201 bbl/day from Q3 for a decrease of 42 bbl/day. The decline was the result of the a general decline in production as well as declining volumes on well 139-01 (0.48 net) which has been on a long-term production test which initially exhibited high initial production levels, however, has since declined and stabilized. Canadian net production averaged 11 boe/day which was up slightly from average Q3 production of 6 boe/day as a result of a well being down during part of Q3.
- BrazAlta and W. Washington Petroleo S.A. ("W. Washington") entered into a participation agreement with Brownstone Ventures Inc. ("Brownstone") to earn interests in Test Well Blocks 24, 31, 52, 39, 91, 102 & 113, each in the Reconcavo Basin, Brazil. Under the terms of this farm-in agreement, Brownstone will earn a 25 percent interest in each of the Test Well Blocks by paying 25% of the costs associated with the drilling of each test well.

SUBSEQUENT EVENTS DURING Q1-F2009

Pending Acquisition of Canacol Energy Inc.

On August 25, 2008 BrazAlta entered into a definitive amalgamation agreement for the arm's length acquisition of all of the issued and outstanding common shares and warrants of a private oil and gas exploration company, Canacol Energy Inc. ("Canacol") (the "Transaction"). The agreed aggregate consideration for all of the Canacol common shares and warrants is a total of 40,000,000 common shares in the capital of BrazAlta ("BrazAlta Common Shares"). The closing of the Transaction was originally scheduled for September 29, 2008 but has been extended to October 29, 2008 in order to allow for Canacol to complete the tender and consent process of their shareholders.

On August 29, 2008, BrazAlta in conjunction with Canacol closed the acquisition of a private Colombian exploration and production company, Rancho Hermoso S.A. for gross proceeds of US\$28.6 million.

A debt facility was jointly put in place by BrazAlta and Canacol in order to finance the acquisition of Rancho Hermoso S.A. by Canacol. BrazAlta (through a subsidiary) and Canacol jointly borrowed from Standard Bank Plc. ("Standard Bank"), the sum of US\$25.6 million as co-borrowers. The Standard Bank Loan comprises two credit facilities:

- a) a US\$50 million three year senior secured borrowing base revolving credit facility with an initial availability of US\$14 million; and

b) a US\$11.6 million mezzanine facility.

The security package and terms for the Standard Bank Loan comprises a lien on the shares of Rancho Hermoso S.A.; a guarantee from each of BrazAlta and Canacol; and a hedge of a percentage of Rancho Hermoso S.A. production. In addition, BrazAlta has issued to Standard Bank Plc., warrants to acquire 10,000,000 BrazAlta Common Shares at a price of C\$0.80 per BrazAlta Common Share for a period of five years, and has cancelled the 3,500,000 US\$2.00 warrants issued to Standard Bank Plc. last year as part of a Brazilian asset financing.

The parties have agreed to pay the other a break fee of \$720 in certain circumstances if the Transaction is not completed. If the amalgamation transaction is not completed by October 29, 2008, Canacol will be obligated to transfer to BrazAlta (subject to the consent of Standard Bank Plc.) all of the securities of Rancho Hermosa S.A. which are presently held by Standard Bank and BrazAlta would refund Canacol's original purchase deposit of US\$3 million. Subject to certain conditions, Canacol would retain rights to re-purchase the securities of Rancho Hermosa S.A. for USD32 million within 120 days of October 29, 2008. The failure to complete the acquisition of Canacol by September 29, 2008 is a breach of a term, and condition, of the credit facility with Standard Bank.

In addition, if the amalgamation transaction does not close by October 29, 2008, Canacol is indebted to BrazAlta for the sum of US\$4.9 million plus accrued interest, which is due and payable by Canacol to BrazAlta on November 7, 2008. As security for this loan BrazAlta has taken a lien on the securities of Canacol Sucursal Colombia and has a general security agreement from Canacol which is subordinated to Standard Bank Plc.

BCH Equity Injection

Effective September 30, 2008, the Corporation completed a non-brokered private placement of 4,474,999 BCH Common Shares of BCH Ltd. at a price of US\$4.163 per BCH Common Share for aggregate gross proceeds of US\$18,629. The Corporation's parent, BrazAlta Resources Corp. acquired 2,282,249 BCH Common Shares for consideration of US\$7,415 in conversion of loans receivable from BCH and cash proceeds of US\$2,086. Allis-Chalmers Energy Inc. acquired 2,192,750 BCH Common Shares in the financing for consideration of US\$3,500 in conversion of accrued interest payable and cash proceeds of US\$5,628. Following the completion of the financing, BCH has 14,474,999 Common Shares issued and outstanding of which BrazAlta owns 12,282,249 BCH Common Shares. Assuming Allis Chalmers converts its Debenture into common shares of BCH, the relative ownership of BCH will be 51% owned by BrazAlta and 49% owned by Allis Chalmers. The equity injection bolstered BCH's balance sheet but BCH remains offside with respect to certain covenants of its lending facility with Standard Bank Plc. The Company is seeking a waiver for the covenant deficiencies but at the time of releasing this MD&A such waiver had not yet been granted by Standard Bank Plc.

Farm-In

On September 3, 2008, BrazAlta entered in a farm-in agreement with Benchmark Energy Corp. ("Benchmark") whereby Benchmark can earn a 60% interest in BrazAlta's Espirito Santo Blocks 318, 362, and 380 by funding 100% of an 83-km 2D seismic shoot. The estimated cost of the 2D seismic shoot is approximately US\$1.7 million.

COMPANY OVERVIEW AND OVERALL PERFORMANCE

BrazAlta Resources Corp. ("BrazAlta" or the "Corporation")(TSX-Venture: BRX) is a Canadian-based independent onshore oil exploration company operating in Brazil. BrazAlta is engaged in the exploration, development, and production of oil and natural gas in Brazil's Recôncavo, Sergipe, Espirito Santo and Tucano basins. The company also maintains exploration programs in Canada and Northern Ireland.

BCH Ltd. ("BCH"), BrazAlta's drilling services subsidiary, has established itself as a leading onshore provider of both drilling and service rigs in Brazil by securing several long-term contracts with Petrobras, Brazil's state-owned petroleum company, to provide rigs and services.

Brazil E&P

Effective January 5, 2006, BrazAlta entered into a Consortium and Joint Operating Agreement (the "Agreements") with W. Washington Empreendimentos E. Participações Ltda, who subsequently has changed its name to W. Washington Petroleo S.A. ("W. Washington") for the creation and operation of a Brazilian domiciled joint venture entity ("Brazil Joint Venture") to hold, explore, develop and produce hydrocarbons

in Brazil. BrazAlta holds a 47.5% interest and W. Washington holds a 52.5% interest in the Brazil Joint Venture and W. Washington acts as the operator in Brazil.

BrazAlta's E&P operations is primarily engaged in exploration, development and production of oil and gas in the Recôncavo, Sergipe, Espirito Santo, and Tucano basins of Brazil. BrazAlta has a platform of basic infrastructure to position the Corporation for growth.

BrazAlta holds a 47.5% working interest and W. Washington holds a 52.5% interest In the four main production concessions in Recôncavo, from which over 90% of BrazAlta's current production is attributed to. The concession contracts were originally awarded to W.Washington by the Agencia National De Petroleum ("ANP"), Brazil's national regulator, and BrazAlta subsequently registered its 47.5% interest on these contracts directly with the ANP. Rights to produce hydrocarbons on these four producing blocks run until 2025. As operator W.Washington sells all of the produced oil to Petrobras in Recôncavo at prices based on North Sea Brent less costs for transportation and processing. Payment for all oil revenues is made in Brazilian Real.

To date the bulk of the E&P activity has been undertaken by BrazAlta in the Recôncavo and Sergipe basins and has been higher risk and exploratory in nature with minimal success achieved which has resulted in no appreciable increase in oil production or significant addition of reserves during fiscal 2008.

Canada E&P

Operations in Canada are considered to be non-core, but provide cash flow to BrazAlta to offset a portion of G&A costs within Canada. Canadian properties are non-operated and at June 30, 2008 include: three natural gas wells (0.70 net) located in Sylvan Lake, Alberta, and royalty income from six oil wells in the Lochend area of Alberta.

Ireland E&P

Exploration in Ireland is considered to be non-core and high risk and includes oil and natural gas exploration and the potential for development of salt cavern gas storage.

Brazil Oilfield Services

In addition to the oil and gas exploration and development operations, the Corporation diversified its cash flow and strategic operations in fiscal 2007 through the incorporation BCH Ltd. and its wholly owned subsidiary, BCH Energy do Brasil Serviços de Petróleo Ltda ("BCH Ltda.") a Brazil-based drilling services subsidiary. The principal undertaking of BCH is to engage in the oilfield services business in Brazil, which has ensured access to quality and timely oilfield services for the BrazAlta's E&P activities while also providing revenue diversification through services provided to third party customers. In April 2007, BCH established itself as a leading onshore provider of both drilling and service rigs in Brazil by securing four multi-year contracts with Petrobras, Brazil's state-owned petroleum company, to provide drilling rigs and services. The initial term on two of the contracts is for two years and the initial term on the other two contracts is for three years. The rigs that were designated to service these contracts were acquired, and exported to Brazil and put into use throughout 2008. During 2008 a fifth, three year contract with Petrobras was added and a sixth one-year contract was added bringing the total number of contracted drilling rigs with Petrobras to six. The term of each contract begins on its respective on-site rig commissioning date. In aggregate over their respective initial terms, the six Petrobras contracts, excluding renewal options, are expected to generate gross revenues of more than US\$105 million. However, as 2008 has been a start-up year for BCH in which it focused on growth and expansion, costs from operations have exceeded revenues during this period.

FINANCIAL HIGHLIGHTS

Unless otherwise stated, amounts presented in this MD&A are in thousands of Canadian dollars (unaudited).

Annual Information

(\$000s, except production data)	2008	2007	2006 ⁽³⁾
Petroleum and natural gas sales			
Brazil ⁽²⁾	4,800	3,156	1,155
Canada	140	284	226
	<u>4,940</u>	<u>3,440</u>	<u>1,381</u>
Drilling services revenue	22,965	3,185	-
Total operating revenue	<u>27,905</u>	<u>6,625</u>	<u>1,381</u>
Total production (boe)	62,749	56,814	18,716
Drilling services activity days	1,144	122	-
Cash used in operating activities	6,762	5,266	1,212
Per share ⁽¹⁾	0.08	0.09	0.04
Net loss	17,581	7,973	2,995
Per share ⁽¹⁾	0.21	0.13	0.10

⁽¹⁾ Per share amounts are basic and diluted.

⁽²⁾ Certain of the prior year figures have been reclassified to conform with the current year's presentation. Transportation and processing charges were historically presented net of revenue.

⁽³⁾ Brazil operations commenced March 1, 2006.

For the year ended, total operating revenue was \$27,905 (2007 - \$6,624) representing an increase of 321%. The majority of the year-over-year increase is attributable to BCH which recorded revenues of \$22,965 (2007 - \$3,186) representing a year-over-year increase of 620%. For BCH, drilling services revenue increased through a combination of mobilization revenue, increased active rig count, increased active rigs days, and increased activity with third party customers.

During the year, total revenue for exploration and production activities was \$4,940 (2007 - \$3,438), representing a year-over-year increase of 44%. For the Corporation's petroleum and natural gas operations, the respective year-over-year sales increases are attributable to a combination of higher production volumes during the year in Brazil and significantly higher prices achieved for the produced volumes.

During the year, total funds used in operations was \$6,762 (2007 - \$5,266). The year-over-year increase primarily reflects the net loss during the period of \$17,581 (2007 - \$7,973), net of non-cash items of \$9,788 (2007 - \$3,100), and a net outflow of operating working capital of \$1,031 (2007 - inflow \$393).

Quarterly Information <i>(\$000s, except production data)</i>	2008				2007				2006			
	Q4	Q3	Q2	Q1	Q4 ⁽²⁾	Q3 ⁽²⁾	Q2 ⁽²⁾	Q1 ⁽²⁾	Q4	Q3	Q2 ⁽³⁾	Q1 ⁽³⁾
Petroleum and natural gas sales												
Brazil ⁽²⁾	1,515	1,487	992	806	728	889	689	850	857	299	-	-
Canada	33	8	42	56	122	81	70	11	(17)	86	127	30
	1,549	1,495	1,034	862	850	970	759	861	840	385	127	30
Drilling services revenue	9,702	7,003	5,257	1,003	1,818	642	604	121	-	-	-	-
Total operating revenue	11,251	8,498	6,291	1,865	2,668	1,612	1,363	982	840	385	127	30
Total production (boe)	15,146	18,543	14,932	14,128	14,001	16,562	13,746	12,505	12,535	5,679	502	
Drilling services activity days	464	287	284	109	120	36	70	16	-	-	-	
Cash used in (from) operating activities	(48)	1,539	4,247	1,024	1,755	1,836	735	940	1,015	596	508	125
Per share ⁽¹⁾	(0.00)	0.02	0.05	0.01	0.03	0.03	0.01	0.02	0.00	0.01	0.03	0.01
Net loss	8,479	5,652	728	2,722	3,359	2,240	1,300	1,074	748	1,668	405	174
Per share ⁽¹⁾	0.09	0.06	0.01	0.03	0.05	0.04	0.02	0.02	0.02	0.04	0.03	0.01

⁽¹⁾ Per share amounts are basic and diluted.

⁽²⁾ Certain of the prior year figures have been reclassified to conform with the current year's presentation. Transportation and processing charges were historically presented net of revenue.

⁽³⁾ Brazil operations commenced March 1, 2006.

Total operating revenue for Q4-F2008 of \$11,251 (2007 - \$2,666) increased by \$8,585 or 322% compared to Q4-F2007. Of this, \$9,702 (2007 - \$1,818) relates to BCH. The year-over-year increase is a result of the increase size of the Corporation's drilling fleet and a onetime mobilization payment for BCH 05 which commenced operations in Q4-F2008. Total operating revenue related to the Corporation's oil and gas operations was \$1,549 (2007 - \$850). The year-over-year increase is a result of higher production volumes from its Brazilian properties and significantly higher prices achieved on production volumes. Total operating revenue in Q4-F2008 increased by \$2,753 or 32% compared to Q3-F2008. The increase is primarily a result of a full quarter of operations for BCH 04, initiation of operations for BCH 05, and a onetime mobilization payment for BCH 05 upon initiating its long-term contract.

SUMMARY OF RESULTS

Petroleum and Natural Gas Sales (Net of Royalties)

Revenue for the year ended June 30, 2008 was \$4,940 (2007 - \$3,440), a 43% increase was generated through production of 58,340 bbls (159bbl/day) (2007 - 49,155 bbls (135 bbl/day)), a 19% increase, of light oil from properties in Brazil and 4,306 bbls (12 boe/day) (2007 - 7,660 bbls (21 boe/day)), a 43% decline, consisting of oil, natural gas, and natural gas liquids in Alberta. The increase in revenue for the year was a result of a combination of higher production and sales volumes achieved in Brazil and higher prices achieved on that production.

For Q4-F2008 total revenue from petroleum and natural gas sales was \$1,549 (2007 - \$850) a 82% increase. During Q4-F2008, Brazilian net production to the Corporation averaged 159 bbl/day (2007 - 118 bbl/day), a 34% increase and a decline of 42 bbl/day from the prior quarter (Q3-F2008 - 201 bbl/day). The year over year production increase was the result of the 2 (0.95 net) new successful wells drilled during Q1-F2008 being on production for a full quarter and the addition of test production from exploration well 139-01 (0.48 net) for a portion of F2008. The average price achieved per bbl in Brazil in Q4-F2008 was \$125.73/bbl (2007 - \$69.61/bbl), which is an 80% increase. During F2008, the average price achieved per bbl in Brazil was \$98.06/bbl (2007- \$71.49/bbl) which is a 37% increase on a year-over-year basis.

Canadian net production averaged 12 boe/day during the year which was down from 2007 average production of 21 boe/day due in part to certain wells being down for portions of F2008 and a general decline in production.

Production				
(boe)	Three Months			
	Ended June 30,		Year Ended June 30,	
	2008	2007	2008	2007
Brazil	14,491	10,736	58,340	49,155
Canada	604	3,269	4,306	7,660
Total	15,095	14,005	62,645	56,815

Brazil oil sales are subject to non-refundable sales taxes of which \$480 (2007 - \$104) has been recorded and netted against revenue for the year ended June 30, 2008. During Q4 F2008, sales taxes totalled \$155 (2007 - \$51). The respective year-over-year and quarter-over-quarter increases as a result of change in the Brazil tax methodology, however, the change in methodology benefits the organization in other areas of tax credits.

Royalties as a percentage of gross petroleum and natural gas revenues by geographic region for the three month period and year ended June 30, 2008, and respective prior period comparables are shown in the table below. The current base royalty regime in Brazil is between 5% and 11% of gross production revenue. The actual rate the Corporation achieved in F2008 in Brazil was 7.7% compared to 7.0% in F2007. The rate remained fairly constant and are based on a sliding scale down on incremental production over and above certain production thresholds on a block by block basis. Therefore, if aggregate production on any one block increases above the contracted thresholds the royalty on that block should decline over time.

Royalties				
	Three Months		Year Ended June	
	Ended June 30,		30,	
	2008	2007	2008	2007
Brazil	8.3%	3.7%	7.7%	7.0%
Canada	9.4%	18.6%	29.0%	13.8%

Drilling Services Revenue

During Q4-F2008, total drilling services segment revenue, before inter-company consolidation eliminations, was \$10,187 (2007 - \$2,229), a year-over-year increase of 357%. The drilling services unit generated net third party revenue of \$10,187 (2007 - \$1,981) during the three months ended June 30, 2008. The year-over-year increases are attributable to increased activity days as a result of the fleet expansion to 6 active rigs by June 30, 2008, up from 2 for the same period in 2007, and recognition of one-time mobilization payments on five rigs being mobilized to begin multi-year contracts in Brazil.

During Q4-F2008 one-time mobilization revenue of \$1,016 (2007 - \$Nil) was recorded relating to the mobilization of BCH-05 to Brazil to begin a long-term contract with Petrobras. The average active rig count for Q4-F2008 totalled 5.7 as compared to 4.0 in Q3-F2008 and only 1.4 in Q4-2008 resulting in an increase in active rig days (defined as drilling and moving days) to 464 in Q4-F2008 up from 287 in Q3-F2008 (NB: active rig days are gross and have not been adjusted for inter-company transactions). Finally, external third party revenue increased to 100% in Q4-F2008 as all of drilling and workover services were performed for third parties which is not subject to inter-company elimination.

For the year ended June 30, 2008, total BCH drilling services segment revenue, before inter-company consolidation eliminations, was \$26,386 (2007 - \$4,765), an increase of 453%. BCH generated net third party revenue of \$24,418 (2007 - \$3,690) during the year. During the year, a total of \$5,455 (2007 - \$Nil) has been recognized in one time revenues relating to the mobilization of five rigs to long-term contracts.

BCH had an average of 3.7 rigs available for use during the year ended June 30, 2008 compared to 0.9 rigs during last year and ended June 30, 2008 with six drilling rigs and one service rig available for use. Gross

activity days before consolidation adjustment in the current quarter and the year totalled 464 and 1,144 respectively compared to 120 and 242 respectively during the prior year.

	Drilling Services Revenue			
	Three Months Ended			
	June 30,		Year Ended June 30,	
(\$000s)	2008	2007	2008	2007
Drilling services segment revenue	10,187	2,229	26,386	4,765
Less: Inter-segment sales ⁽¹⁾	-	(248)	(1,968)	(1,075)
Less: Sales taxes	(485)	(164)	(1,453)	(505)
Drilling services revenue	9,702	1,817	22,965	3,185

⁽¹⁾ Inter-segment revenue and profit have been netted against exploration and production capital expenditures on consolidation.

During the year BCH-01 and BCH-02 were demobilized at the end of Q1-F2008 and were upgraded with additional equipment, and commenced mobilization to new multi-year contracts. These rigs re-commenced operations in Rio Grande de Norte on October 5, 2007 and Espirito Santo on October 18, 2007 respectively.

BCH-03 was imported into Brazil in Q1-F2008 and commenced drilling operations for BrazAlta's joint venture on November 1, 2007 in the Recôncavo basin, Bahia. The rig was demobilized in Q3-F2008 and was upgraded with additional equipment in preparation for mobilization to a new long-term contract with Petrobras. Prior to starting that contract, BCH-03 re-commenced operations in Q1-F2009 on a short-term contract for BrazAlta's joint venture. In August 2008 BCH-03 was deployed back to Petrobras.

BCH mobilized BCH-04, a mechanical double, was mobilized into Brazil during Q2-F2008 and it was moved to location in Bahia for Petrobras and began drilling operations on March 5, 2008.

BCH-05, a diesel electric double, was transported to Brazil during Q3-F2008 and commenced drilling operations during Q4-F2008 in Rio Grande de Norte. In July 2008, BCH 05 incurred an accident in which the rig's derrick collapsed as a result of structural failure. The accident caused damage to both the derrick and certain supporting buildings. It is expected the repair cost will be approximately US\$2.5 million and that the repair cost will be fully funded by insurance proceeds. Lost revenue days in 2008 on the rig are expected to total 160 days which represents gross receipts of approximately US\$4.2 million being foregone during the period.

During the third quarter, BCH-06, a mechanical double, was acquired and transported to Brazil. BCH-06 commenced operations for Petrobras in Sergipe on February 23, 2008.

BCH-101, the Corporation's service rig was fitted with additional equipment during the second quarter and became fully operational on November 1, 2007 in Bahia. After completing several operations for BrazAlta's joint venture it has been working for third party junior exploration and production companies since February of 2008.

Interest and Other Income

During Q4-F2008 interest and other income of \$234 (2007 - \$44) was recorded. During the year a total of \$596 (2007 - \$433) was recorded based from the interest earned from cash investments in Canada and Brazil and non-routine administrative services fees. The respective year-over-year increases of comparable periods are primarily attributable to higher cash balances during periods as a result of proceeds from the issuance of the Debenture.

Operating Expenses and Netback - Petroleum and Natural Gas

During Q4-F2008 overall operating expense totalled \$1,306 (2007 - \$936). For the year ended June 30, 2008 overall operating expense totalled \$4,080 (2007 - \$2,235) for a year-over-year increase of \$1,845 or 83%. Of this increase, \$1,329 relates to amounts paid and accrued relating to the Corporation's minimum exploration program ("MEP") work unit commitments with the ANP which are expected to be fulfilled by means of financial settlement. Refer to the Commitments section for additional details. Details by operating segment are outlined in the table below. In Brazil, BrazAlta maintains a platform for growth and recognizes that its current production levels result in its operating costs not yet realizing the benefit of economies of scale. Approximately one-third of operating costs represents fixed costs that are expected to be scalable to approximately 2,000-3,000 gross boe/day. Therefore, if the company experiences future increases in production it is expected the operating expense per boe will be reduced from current levels.

Operating Expenses				
	Three Months Ended June 30,		Year Ended June 30,	
	2008	2007	2008	2007
	(\$000s)			
Operating expenses				
Brazil ⁽¹⁾	379	596	1,548	1,090
Canada	6	47	95	94
	<u>386</u>	<u>642</u>	<u>1,643</u>	<u>1,183</u>
Transportation & processing charges	182	126	732	674
Brazil well workover & repair	2	168	376	377
MEP work unit provision	737	-	1,329	-
	<u>1,306</u>	<u>936</u>	<u>4,080</u>	<u>2,235</u>
Operating expenses per boe				
Brazil ⁽¹⁾	26.17	55.48	26.53	22.17
Canada	9.79	14.24	21.61	12.21
Weighted Average	<u>25.46</u>	<u>45.86</u>	<u>26.19</u>	<u>20.83</u>

⁽¹⁾ Expenditures related to the planned non-routine enhancement workover program undertaken during the year are presented separately and excluded from the calculation of ongoing operating costs. Transportation and processing charges and MEP work unit provision are also shown separately.

Operating Expenses and Operating Margin - Drilling Services

The drilling services segment is approaching self sufficiency within its operational cash flows as rigs finalize commissioning onto long-term contracts. During Q4-F2008, operating rigs achieved a utilization rates (total operating and moving days) of 89% compared to 97% in the same quarter last year. For the year ended June 30, 2008, average utilization of 85 % has been achieved as compared to 75 % in the prior year.

Drilling services operating costs for the Q4-F2008 were \$7,370 (2007 - \$1,963). The increase over prior year is a result of the increased size of the drilling fleet and corresponding operations compared to prior year. Operating margin for Q4-F2008 was \$2,332 or 24% as compared to (\$145) in the prior year.

During the year, the drilling services segment had operating expenses of \$16,833 (2007 - \$2,982) and, including one time revenues recorded, experienced an operating margin of \$6,132 or 26% (2007 - \$203). During the year, BCH incurred various additional start-up operating costs during the initial growth stages of BCH as it established a platform to support future growth and expansion. Management expects a number of the incremental costs to be short-term in nature and the benefit of these costs will be recovered from future revenue and operations as a result of expansion of its rig fleet. As the BCH rig fleet begins full operations in

Brazil during F2009, the Corporation expects on-going strong rig utilization rates, steady growth in rigs available for use, and growing economies of scale based on the current rig fleet and contracts.

Depletion, Depreciation, and Accretion (DD&A)

During Q4-F2008 overall corporate DD&A expense was \$1,994 (2007 - \$576) and \$4,919 (2007 - \$1,992) for the year ended. During the year, depreciation expense relating to the operations of BCH totalled \$2,028 (2007 - \$363) during the year. In Q4-F2008, depreciation expense relating to BCH totalled \$942 (2007 - \$110). The respective year-over-year and quarter-over-quarter increases in depreciation expense relative to last year for BCH were due to a combination of increases in the size of the drilling fleet and overall increased utilization. DD&A relating to the Corporation's exploration and production activities totalled \$2,859 (2007 - \$1,608) during the year. In Q4-F2008, DD&A relating to the Corporation's E&P operations totalled \$1,043 (2007 - \$448). The respective increase on a year-over-year and quarter-over-quarter basis is primarily a result of an increase in the amount of proven properties included in the depletion calculation and higher production volumes compared to last year.

Impairment on Petroleum and Natural Gas Properties

The Corporation performed an impairment (ceiling) test calculation at June 30, 2008 to assess the recoverable value of the petroleum and natural gas properties. As at June 30, 2008, an impairment of the Corporation's Canadian petroleum and natural gas properties of \$423 was recorded (2007 - \$Nil). There was no impairment of the carrying value of the Corporation's Brazilian properties.

General and Administrative

During Q4-F2008, general and administrative (G&A) expenses were \$2,850 (2007 - \$1,782), and G&A expenses totalled \$8,018 during the year ended June 30, 2008 (2007 - \$5,958). The majority of the year-over-year increase in G&A costs related to the growing operations of BCH. For the year ended, G&A costs related to BCH totalled \$4,111 (2007 - \$1,473) while G&A costs related to the Corporation's exploration and production activities totalled \$2,002 (2007 - \$2,204). During Q4-F2008, G&A expenses relating to BCH totalled \$1,738 (2007 - \$606) with the increase being attributable to the year-over-year expansion of the Company's drilling fleet and the necessary administrative framework to support the expanded operations. G&A costs related to the Corporation's exploration and production activities were comparable on a year-over-year and in Q4-F2008 totalled \$609 (2007 - \$615). Corporate general and administrative expense for the year totalled \$1,905 (2007 - \$2,280). General and administrative expenses were incurred in both Canada and Brazil and primarily consist of management and advisory fees, professional fees, travel, and other administrative expenses needed to support operations. BrazAlta did not capitalize any indirect overhead costs.

Interest and Financial Expenses

During Q4-F2008 interest and financial expenses were \$3,109 (2007 - \$Nil). This expense is comprised of interest on the Corporation's long-term debt facilities, convertible debenture, capital leases, and non-cash interest charges. Non-cash interest charges relate to the accretion of the deferred financing charges incurred on the Corporation's debt facilities as well as accretion of the convertible debenture. Non-cash interest charges for Q4-F2008 totalled \$860 (2007 - \$Nil).

For the year ended June 30, 2008 total interest and financing expense of \$6,795 (2007 - \$Nil) was incurred of which cash interest expense totalled \$5,152 (2007 - \$Nil) while the non-cash component totalled \$1,643 (2007 - \$Nil).

Foreign Exchange Gain, Net

The Corporation's activities in Brazil use the Brazilian Real (BRL) as its functional currency and therefore it is exposed to the risk of fluctuations in foreign exchange rates. The Corporation's sales purchase contract for the oil produced in Brazil is based on the US dollar but paid in Brazilian Real at the effective exchange rate on the day of the payment. The Corporation's drilling services contracts are based on a US dollar price with a portion paid in Brazilian Real and a portion of which is paid in US dollars. Both the Corporation's long-term debt facilities and its convertible debenture is denominated in the US dollar.

The Corporation incurred a foreign exchange gain of \$716 during the year (2007 - gain \$25). During Q4-F2008, the Corporation had a foreign exchange gain of \$798 compared to a loss in prior year of \$132. The foreign exchange gain during the quarter is a result of fluctuations in the Canadian dollar relative to the US dollar and the corresponding impact on the Corporation's US denominated debt as well as the foreign exchange gain on translation as a result of the appreciation of the Brazilian Real relative to the Canadian

dollar during the year. During the year, the Corporation entered into three currency derivatives to manage its exposure to the Brazilian Real. Refer to the Risk Factors Section below for additional details.

Loss on Financial Derivatives, Net

During the year, the Corporation had three financial derivatives in place. These included a Brent oil financial option collar, three foreign currency derivative contracts entered, and an embedded derivative associated with the Corporation's drilling contracts. The Corporation has embedded derivatives associated with several of its drilling rig contracts with its customers, whereby the revenues received from the lease portion of these contracts is denominated in the US dollar which is neither the reporting currency of the Corporation nor the host currency of the customer. The Corporation has not designated any of these embedded derivatives as hedges and has therefore recorded the unrealized gain on these contracts on the balance sheet with changes in their fair value recorded in the net earnings for the period.

During the year, the Corporation had a net unrealized financial derivative loss of \$987 (2007 - \$Nil) which was comprised of the following balances: An unrealized financial derivative gain of \$480 (2007 - \$Nil) relating to the Corporation's currency derivatives, an unrealized financial derivative gain of \$21 (2007 - \$Nil) relating to the Corporation's embedded derivative contracts, and a unrealized financial derivative loss of \$1,488 (2007- \$Nil) relating to the oil collars, which were calculated over the life of the three year hedge based on estimated expected settlement prices of US\$108/bbl in calendar 2008, US\$106/bbl in calendar 2009, and US\$104/bbl in calendar 2010.

During the year, the Corporation had a net realized financial derivative loss of \$522 (2007 - \$Nil) which was comprised of the following balances: An unrealized financial derivative gain of \$51 (2007 - \$Nil) relating to the Corporation's currency derivatives offset by a realized financial derivative loss of \$573 (2007- \$Nil) relating to the oil collars.

Stock Based Compensation

During Q4-F2008 a total of \$214 (2007 - \$657) was expensed relating to the vesting of stock options. The year-over-year decline can be attributable to the timing of option grants during the year. For the year ended June 30, 2008, a total of \$1,758 (2007 - \$1,496) was expensed. The fair values of the BrazAlta options were calculated using the Black-Scholes model with the following assumptions: risk-free interest rate ranging from 3.4% to 4.4%, expected life of options 5 years, no dividends, and an expected volatility of 72%. Included in the above expenses in F2008 are options granted by BCH, a subsidiary of the Corporation during Q3-F2008. For the year ended June 30, 2008, a total of \$164 (2007 - \$Nil) was recognized relating to options issued by BCH. The fair value of the options issued by BCH was computed using the following assumptions: risk-free interest rate of 3.75%, expected life for the options of 2 years, no dividends, and an expected volatility of 35%.

Income Taxes

BrazAlta is subject to taxation in Canada and Brazil. The current income tax expense for the year ended June 30, 2008 was \$1,948 (2007 - \$478) relating to Brazilian withholding taxes on the lease portion of BCH's drilling rig contracts paid which is paid to Canadian entity. For the year, total net tax expense of \$2,172 (2007 -\$95) was recorded. The respective year-over-year increase is as a result of the increased revenues earned on the lease portion of BCH's drilling contracts. A future income tax asset is recognized on the withholding tax amounts paid as the Corporation receives a business foreign tax credit in Canada related to these amounts. The Corporation's Canadian drilling services segment has also recognized a future income tax asset for various timing differences arising between the book value and tax value of its capital assets. A future income tax asset is not recognized for the Corporation's remaining net-capital loss, non-capital loss, or other tax pool balances. A valuation allowance has conservatively been applied to the remainder of the future income tax assets in the entity of \$8,797 (June 30, 2007 - \$3,050) due to the uncertainty of realization.

Assets Held For Sale

As of June 30, 2008, the Corporation recorded assets held for sale of \$975 (2007 - \$Nil). This relates to unused equipment that was sold by the Corporation subsequent to year-end for net proceeds of US\$950. An impairment of \$292 (2007 - \$Nil) was recorded during Q4-F2008 reflecting the difference between the holding value and the actual selling pricing.

CASH FLOWS FROM OPERATING, FINANCING, AND INVESTING ACTIVITIES

Operating

During the year, the cash flow deficiency from operating activities totalled \$6,762 (2007 - \$5,266). The deficit is primarily attributable to BCH which recorded an operating cash flow deficit of \$8,628 (2007 - \$3,441). BCH's operating cash flow was negatively impacted by higher than anticipated start up costs, lower than expected profitability, and delays in commissioning of rigs. BCH has taken steps to seek cost reductions, improve efficiency, and maximize utilization of its drilling rigs. During Q4 F2008, BCH's operating cash flow deficiency total \$2,582 (2007 - \$1,756).

Financing

During the year, the Corporation recorded net cash flow from financing activities of \$74,516 (2007 - \$17,183). As discussed in further details below in Liquidity and Capital Resources section, significant financing activities were undertaken by the Corporation during the year which included the US\$4.275 million net reserves based lending line; the US\$25 million senior debt facility for BCH; the US\$40 million Convertible Subordinate Secured Debenture issuance by BCH; and the private placement of 10,000,000 common shares of BrazAlta for gross proceeds of \$5.5 million. During Q4-F2008, net proceeds from financing activities totalled a negative \$242 relating repayments on the Corporation's capital leases. During Q4-F2007, net proceeds from financing activities totalled \$6,116 as a result of the exercise of some of the outstanding share purchase warrants.

Investing

During the year, investing activities totalled \$60,977 (2007 - \$21,390). During Q4-F2008, investing activities totalled \$10,861 (2007 - \$2,254). The respective year-over-year and quarter over quarter increase are primarily attributable to expansion of BCH.

During the year ended June 30, 2008 the Corporation incurred \$61,490 in capital expenditures (2007 - \$21,576). The majority of the capital spend \$43,804 (2007 - \$11,811) was incurred in the oilfield services segment relating to the purchase, mobilization, and set-up of four drilling rigs for deployment to Brazil. For the three month period ended June 30, 2008, capital additions in the drilling segment totalled \$876 (2007 - \$844).

During the year, capital expenditures on Brazilian oil and gas properties totalled \$9,748 (2007 - \$9,460) relating to development and exploration activities, drilling and completion equipment inventory, seismic and geophysical, and land costs.

Acquisition related costs of \$733, pursuant to the acquisition of Canacol were incurred during Q4-F2008 (2007 -\$Nil).

LIQUIDITY AND CAPITAL RESOURCES

Funding for the Corporation's expenditures during the year was provided through a combination of revenue, surplus cash balances, draws on the Corporation's long-term debt facilities, the completion of a private placement, funds received from the exercise of warrants and options, and the issuance of a convertible debenture by BCH. At June 30, 2008 the Corporation had a working capital deficiency of \$17,521 (surplus of \$1,265 excluding the reclassified portion of long-term debt) compared to (June 30, 2007 - \$3,075).

During the year the Corporation reviewed several financing options that would finance the Corporation to execute its planned capital drilling program and exploration commitments as well as BCH's expansion plans in fiscal 2008 and beyond and as such entered into the following debt and equity transactions.

On August 2, 2007, BCH closed a senior secured medium term loan credit facility of US\$30.0 million with Standard Bank Plc. and completed two draws on the facility for US\$13.7 million (August 2, 2007) and US\$14.5 million (October 2, 2007) respectively, in order to fund the expanding operations of BCH in the Brazilian oilfield services sector. On January 31, 2008, US\$3.2 million of the outstanding principal balance was repaid to reduce the outstanding balance to US\$25.0 million at June 30, 2008. The facility has a term of five years and the facility is repayable in quarterly instalments comprising interest only in the first anniversary year of the facility and then the remaining balance in equal quarterly instalments of principal plus interest commencing September 30, 2008 with final payment due in August 2012. The facility bears interest at LIBOR plus 3.25%. As part of the facility, BCH issued 250,000 share purchase warrants (the "BCH Warrants") to the

lender. Each whole BCH Warrant is exercisable for a period of five years following the closing of the financing and entitles the holder to purchase one Common Share of BCH at a price of US\$10.00 per BCH Common Share. The securities are subject to an indefinite statutory hold period and at the time of issuance BCH Ltd. had 10 million Common Shares outstanding. As at June 30, 2008, BCH was in violation of covenants relating to this term debt facility pertaining to minimum working capital balances, debt coverage, and interest coverage. The Corporation has and continues to seek cost reductions in order to generate positive cash flow from operations. Also, the Corporation may need to either obtain a new debt facility or negotiate amendments and/or extensions of its existing debt facility as a result. The Corporation has not yet obtained the waivers from its lenders regarding the covenant violations. While the Corporation is focusing its best efforts on these matters and continues to negotiate with its lender, the outcome cannot be certain at this time. There is, therefore, a risk regarding the Corporation's ability to continue as a going concern with respect to this loan. The accompanying Audited Consolidated Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities, except for the term debt facility which has been reclassified as a current liability due to the fact that it is callable by the lender at any time, that might be necessary should the Corporation be unable to continue in business and therefore be unable to realize its assets and discharge its liabilities in the normal course of business. As a result any such adjustments could be material. Please see further discussion in the Risks section of this MD&A.

On August 9, 2007, BrazAlta and W. Washington jointly closed a reserves-based US\$50.0 million revolving line of credit facility with Standard Bank Plc. W. Washington has entered into the credit agreement and at the time, based on the lender's evaluation of reserves estimates, was able to complete a first draw on the facility of US\$9.0 million, representing the maximum draw. The revolving facility is interest payments only for three years with repayment of principal due in full in August 2010. The facility will bear interest at LIBOR plus 3.50%. The facility is cross guaranteed by BrazAlta as a 47.5% joint-interest partner. As part of the facility BrazAlta issued 3,500,000 share purchase warrants (the "BRX Warrants") to the lender. Each issued whole BRX Warrant was exercisable for a period of five years following the closing of the financing and entitles the holder to purchase one Common Share of BrazAlta at a price of US\$2.00 per Common Share. Subsequent to year-end W. Washington and BrazAlta repaid gross US\$1.9 million (net \$0.903 million) of the principal outstanding leaving an unpaid principal balance of US\$7.1 million (US\$3.373 million net). Additionally subsequent to year-end, the BRX Warrants issued under this facility were cancelled and new BRX Warrants were issued as part of an additional credit facility with Standard Bank Plc. as described below and in the Subsequent Events section of this MD&A.

The Corporation has one major lender, Standard Bank Plc. As such the Corporation, remains exposed to risks related to the health and viability of its lender in the current difficult financial markets, and is exposed to the risk that the particular lender's appetite for the risks and exposures associated with financing junior international company operations. This is discussed further in the Risks section of this MD&A.

On December 20, 2007 BrazAlta completed a brokered private placement of 9,917,364 Common Shares of the Corporation at a price of \$0.55 per Common Share for aggregate gross proceeds of \$5.455 million. An additional 82,636 Common Shares for gross proceeds of \$0.045 million were issued on a non-brokered basis to Brazilian based employees of BrazAlta, for total gross aggregate proceeds of \$5.5 million. Management and insiders of the Corporation acquired 1,144,364 Common Shares in the financing.

On January 31, 2008 BCH issued a US\$40.0 million Convertible Subordinated Secured Debenture (the "Debenture") to Allis-Chalmers Energy Inc. ("Allis-Chalmers"). The Debenture bears interest at a rate of 15% payable annually, and matures January 31, 2010. It is convertible at any time prior to maturity, at Allis-Chalmers' option, into common shares of BCH at a conversion price of US\$4.163 per BCH Common Share, equating to approximately 49% of the post-conversion outstanding common shares of BCH. The Debenture does not provide Allis-Chalmers recourse to BrazAlta for the loan.

Subsequent to year-end on August 29, 2008, a debt facility was jointly put in place by BrazAlta and Canacol in order to finance the acquisition of Rancho Hermoso S.A. by Canacol. BrazAlta (through a subsidiary) and Canacol jointly borrowed from Standard Bank Plc., the sum of US\$25.6 million as co-borrowers. The Standard Bank Loan comprises two credit facilities: (a) a US\$50.0 million three year senior secured borrowing base revolving credit facility with an initial availability of US\$14.0 million; and (b) a US\$11.6 million mezzanine facility. The security package and terms for the Standard Bank Loan comprises a lien on the shares of Rancho Hermoso S.A.; a guarantee from each of BrazAlta and Canacol; and a hedge of a percentage of Rancho Hermoso S.A. production. In addition, BrazAlta has issued to Standard Bank Plc., warrants to

acquire 10,000,000 BrazAlta Common Shares at a price of \$0.80 per BrazAlta Common Share for a period of five years (“New BRX Warrants”), and has cancelled the 3,500,000 warrants previously issued to Standard Bank Plc. At US\$2.00 last year as part of a Brazilian reserves based lending line.

If the amalgamation transaction between BrazAlta and Canacol is not completed by October 29, 2008, Canacol will be obligated to transfer to BrazAlta (subject to the consent of Standard Bank Plc.) all of the securities of Rancho Hermosa S.A. which are presently held by Standard Bank and BrazAlta would refund Canacol’s original purchase deposit of US\$3.0 million. Subject to certain conditions, Canacol would retain rights to re-purchase the securities of Rancho Hermosa S.A. for US\$32.0 million within 120 days of October 29, 2008. The failure to complete the acquisition of Canacol by September 29, 2008 is a breach of a term and condition of the credit facility with Standard Bank Plc.

In addition, if the amalgamation transaction does not close by October 29, 2008, Canacol is indebted to BrazAlta for the sum of US\$4.9 million plus accrued interest, which is due and payable by Canacol to BrazAlta on November 7, 2008. As security for this loan BrazAlta has taken a lien on the securities of Canacol Sucursal Colombia and has a general security agreement from Canacol which is subordinated to Standard Bank Plc.

Subsequent to year-end, effective September 30, 2008, the Corporation completed a non-brokered private placement of 4,474,999 BCH Common Shares of BCH Ltd. at a price of US\$4.163 per BCH Common Share for aggregate gross proceeds of US\$18.629 million. The Corporation’s parent, BrazAlta Resources Corp. acquired 2,282,249 BCH Common Shares for consideration of US\$7.415 million in conversion of loans receivable from BCH and cash proceeds of US\$2.086 million. Allis-Chalmers Energy Inc. acquired 2,192,750 BCH Common Shares in the financing for consideration of US\$3.5 million in conversion of accrued interest payable and cash proceeds of US\$5.628 million. Following the completion of the financing, the BCH has 14,474,999 BCH Common Shares issued and outstanding of which BrazAlta owns 12,282,249 BCH Common Shares. The equity injection bolstered BCH’s balance sheet but BCH remains offside in certain covenants with respect to its lending facility with Standard Bank Plc. The Company is seeking a waiver for the covenant deficiencies but at the time of releasing this MD&A such waiver had not yet been granted by Standard Bank Plc.

As disclosed in several press releases regarding the planned acquisition of Canacol, it remains the intention of BrazAlta to pursue a liquidity event for BCH. Any potential proceeds from a future sale, disposition or initial public offering of BCH will remain within the company to fund future exploration and development activities and not be distributed to registered shareholders of BrazAlta.

The Corporation continues to assess its requirements for capital on an on-going basis and the Corporation may be required to obtain additional capital to finance the execution of capital drilling programs and exploration commitments as well as to finance working capital deficiencies and expansion plans for BCH prior to any liquidity event being realized. The current state of the public capital markets in the near term severely restricts the options for the Corporation to raise additional equity or debt and there can be no guarantee the Corporation will be able to access all of the required capital it requires.

COMMITMENTS, GUARANTEES, AND OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2008, BrazAlta has minimum exploration program (“MEP”) work unit commitments to complete negotiated exploration work on its onshore blocks awarded by the Agência Nacional do Petróleo, Gás Natural e Biocombustível (“ANP”), Brazil’s National Petroleum Agency. MEP work units are satisfied through completion of exploration wells, seismic programs, and other exploration survey methods all of which have prescribed work units for completion. Therefore, although actual dollars spent on projects do not directly correlate to reducing the MEP work units, the financial guarantees related to non-performance are shown in the table below the commitments will be reduced as exploration work is performed. The Corporation and W.Washington have cross-guaranteed the working interest of the other partner for the non-performance guarantee placed with a Brazilian insurance company which has insured the performance of the MEP work units, or the corresponding financial payment in lieu thereof to the ANP on certain of Round 7 exploration blocks. A large percentage of the Round 7 exploration commitments have been farmed-out and as such the Net Remaining MEP Work Units attributable to BrazAlta for Round 7 in the table below is only 1,867 which, at June 30, 2008, equated to approximately \$3,576 (June 30, 2007 - 5,494 units or- \$9,065). Based on actual work performed up to June 30, 2008 and subsequently, the Corporation has made an accrual as a contingent liability of \$1,119 (June 30, 2007 - \$Nil), relating to its net share of expected MEP work units to be fulfilled

by means of financial settlement for Round 7 obligations which are not expected to be satisfied by means of executed work programs.

Bid Round	Basin	Commitment Date	Gross Remaining MEP Work Units	Gross Financial Guarantee	Net Remaining	
					MEP Work Units	Net Financial Guarantee ¹
7	Recôncavo & Sergipe	August 26, 2008	10,071	\$19,288	1,867	\$3,576
				BRL \$30,213		BRL \$5,601
9	Recôncavo	March 12, 2010	1,600	\$3,064	320	\$613
						BRL \$4,800
9	Espírito Santo	March 12, 2011	1,020	\$1,954	408	\$781
						BRL \$3,060

¹Net financial guarantee based on BrazAlta's net working interest.

In addition, the Corporation has commitments for office premises and other operating leases. As at June 30, 2008, the payments required in each of the next five years are as follows:

	\$
2009	461
2010	461
2011	461
2012	Nil
2013	Nil

The Corporation has two arrangements with its main Brazilian partner W.Washington which could constitute off-balance sheet arrangements. In each case, these agreements are two way guarantees whereby BrazAlta has guaranteed W.Washington's portion and W.Washington has guaranteed BrazAlta's portion.

As disclosed above, on August 9, 2007, BrazAlta and W.Washington jointly closed a reserves-based US\$50.0 million revolving line of credit facility with Standard Bank Plc. W. Washington has entered into the credit agreement and was able to complete a first draw on the facility of gross US\$9.0 million which BrazAlta has recognized it's respective 47.5% share or net US\$4.275 million in the BrazAlta audited consolidated financial statements for the year ended June 30, 2008. However, BrazAlta's ultimate exposure to the loan at June 30, 2008 could be the full US\$9.0 million based on the guarantee signed with Standard Bank Plc. Subsequent to year-end, a gross repayment of US\$1.9 million (net US\$0.903 million) of the facility was repaid to reduce the outstanding balance to gross US\$7.1 million (net US\$3.38 million). As such, the ultimate exposure on the loan as of October 28, 2008 is US\$7.1 million.

As detailed above, BrazAlta has minimum exploration program MEP work unit commitments to complete negotiated exploration work on its onshore blocks awarded by the ANP. BrazAlta has cross-guaranteed the working interest of W.Washington for the non-performance guarantee placed with a Brazilian insurance company which has insured the performance of the MEP work units or the corresponding financial payment in lieu there of to the ANP on certain of Round 7 exploration blocks. In addition the ANP does not directly recognize the liability assumed by the farm-in partners under contract, so the potential maximum exposure to BrazAlta for unfulfilled MEP work unit commitments that it has cross guaranteed with W.Washington in Round 7 concession contracts as at June 30, 2008 could be the full 10,071 outstanding MEP work units which equates to BRL\$30,213 or approximately \$19,288.

SUBSEQUENT EVENTS & PENDING TRANSACTIONS

Pending Acquisition of Canacol Energy Inc.

On August 25, 2008 BrazAlta entered into a definitive amalgamation agreement for the arm's length acquisition of all of the issued and outstanding common shares and warrants of a private oil and gas exploration company, Canacol Energy Inc. ("Canacol") (the "Transaction"). The agreed aggregate consideration for all of the Canacol common shares and warrants is a total of 40,000,000 common shares in the capital of BrazAlta ("BrazAlta Common Shares"). The closing of the Transaction was originally scheduled for September 29, 2008 but has been extended to October 29, 2008 in order to allow for Canacol to complete the tender and consent process of their shareholders.

On August 29, 2008, BrazAlta in conjunction with Canacol closed the acquisition of a private Colombian exploration and production company, Rancho Hermoso S.A. for gross proceeds of US\$28.6 million.

On August 29, 2008, a debt facility was jointly put in place by BrazAlta and Canacol in order to finance the acquisition of Rancho Hermoso S.A. by Canacol. BrazAlta (through a subsidiary) and Canacol jointly borrowed from Standard Bank Plc., the sum of US\$25.6 million as co-borrowers. The Standard Bank Loan comprises two credit facilities: (a) a US\$50.0 million three year senior secured borrowing base revolving credit facility with an initial availability of US\$14.0 million; and (b) a US\$11.6 million mezzanine facility. The security package and terms for the Standard Bank Loan comprises a lien on the shares of Rancho Hermoso S.A.; a guarantee from each of BrazAlta and Canacol; and a hedge of a percentage of Rancho Hermoso S.A. production. In addition, BrazAlta has issued to Standard Bank Plc., warrants to acquire 10,000,000 BrazAlta Common Shares at a price of \$0.80 per BrazAlta Common Share for a period of five years ("New BRX Warrants"), and has cancelled the 3,500,000 warrants previously issued to Standard Bank Plc. At US\$2.00 last year as part of a Brazilian reserves based lending line.

If the amalgamation transaction between BrazAlta and Canacol is not completed by October 29, 2008, Canacol will be obligated to transfer to BrazAlta (subject to the consent of Standard Bank Plc.) all of the securities of Rancho Hermosa S.A. which are presently held by Standard Bank and BrazAlta would refund Canacol's original purchase deposit of US\$3.0 million. Subject to certain conditions, Canacol would retain rights to re-purchase the securities of Rancho Hermosa S.A. for US\$32.0 million within 120 days of October 29, 2008. The failure to complete the acquisition of Canacol by September 29, 2008 is a breach of a term and condition of the credit facility with Standard Bank Plc.

In addition, if the amalgamation transaction does not close by October 29, 2008, Canacol is indebted to BrazAlta for the sum of US\$4.9 million plus accrued interest, which is due and payable by Canacol to BrazAlta on November 7, 2008. As security for this loan BrazAlta has taken a lien on the securities of Canacol Sucursal Colombia and has a general security agreement from Canacol which is subordinated to Standard Bank Plc.

BCH Equity Injection

Effective September 30, 2008, the Corporation completed a non-brokered private placement of 4,474,999 BCH Common Shares of BCH Ltd. at a price of US\$4.163 per BCH Common Share for aggregate gross proceeds of US\$18.629 million. The Corporation's parent, BrazAlta Resources Corp. acquired 2,282,249 BCH Common Shares for consideration of US\$7.415 million in conversion of loans receivable from BCH and cash proceeds of US\$2.086 million. Allis-Chalmers Energy Inc. acquired 2,192,750 BCH Common Shares in the financing for consideration of US\$3.5 million in conversion of accrued interest payable and cash proceeds of US\$5.628 million. Following the completion of the financing, the BCH has 14,474,999 BCH Common Shares issued and outstanding of which BrazAlta owns 12,282,249 BCH Common Shares. The equity injection bolstered BCH's balance sheet but BCH remains offside in certain covenants with respect to its lending facility with Standard Bank Plc. The Company is seeking a waiver for the covenant deficiencies but at the time of releasing this MD&A such waiver had not yet been granted by Standard Bank Plc.

Farm-In

On September 3, 2008, BrazAlta entered in a farm-in agreement with Benchmark Energy Corp. ("Benchmark") whereby Benchmark can earn a 60% interest in BrazAlta's Espirito Santo Blocks 318, 362, and 380 by funding 100% of an 83-km 2D seismic shoot. The estimated cost of the 2D seismic shoot is approximately US\$1.7 million.

Debt Repayment

Subsequent to year-end, the Corporation repaid a portion of its reserves based revolving credit line facility jointly held by BrazAlta and its Brazilian Joint Venture partner W. Washington. A gross repayment of US\$1.9 million (net US\$0.903 million) of the facility was repaid to reduce the outstanding balance to gross US\$7.1 million (net US\$3.38 million).

Round 8 Land Auction

The Corporation qualified for and bid for onshore land blocks offered by the ANP, Brazil's National Petroleum Agency in Brazil's Round 8 land auction held on November 28th and 29th, 2006 ("Round 8 Bid"). BrazAlta and its partners in the Round 8 Bid, W. Washington and Brownstone, were successful in winning and being awarded five separate blocks, each block totalling 180 square kilometres of exploration lands ("Round

8 Bid Lands”) in the Tucano Basin which lies directly west of the Recôncavo Basin. However, the Round 8 Bid is the subject of a court injunction filed in Brasilia against the ANP. The premise for the injunction is that the restriction for any one E&P company to purchase more than four blocks of land in any one area, in any given bid round of land is not constitutional. As of this report date, the court injunction has been lifted in the superior court from one of two jurisdictions. BrazAlta and its partners in the Round 8 Bid have no information indicating that their successful Day 1 Round 8 Bid Lands will not be retained by them.

TRANSACTIONS WITH RELATED PARTIES

During the year, companies controlled by directors or officers of the Corporation were paid a total \$362 (2007 - \$256) in professional and consulting fees and office rent. All of the transactions were completed on normal industry terms. None of these amounts remained outstanding at each respective period end.

The Corporation has working interests in certain Canadian properties which are operated by a Corporation controlled by a director of the Corporation. The Corporation also has an operating agreement under standard industry terms on the properties in Brazil and paid a total \$831 during the year (2007 - \$1,129) of management fees included in general and administrative expenses to a Brazilian Corporation related by virtue that it is controlled by a director of the Corporation. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. At June 30, 2008, \$2,009 (June 30, 2007 - \$301) was cash call receivable and \$91 (June 30, 2007 - \$88) was included in accounts payable and accrued liabilities.

The Corporation’s oilfield services subsidiary, BCH, performed drilling services for W. Washington, the operator and 52.5% working interest holder in the Brazil Joint Venture. W. Washington is controlled by a director of the Corporation and is therefore a related party. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. During the year, the Corporation recorded \$2,174 (2007 - \$1,189) for drilling services revenue from this related party for their share of drilling costs. At June 30, 2008, \$Nil (June 30, 2007 - \$274) was receivable by the Corporation.

On January 8, 2007, the Corporation completed a private placement issuance of 3,010,000 units consisting of one common share and one half common share purchase warrant for gross proceeds of \$3,161 to a company controlled by the shareholders of W. Washington. Each whole warrant entitles the holder to purchase one common share of BrazAlta at a price of \$1.20 per common share.

OUTLOOK

BrazAlta’s goal and mandate has been to build a significant onshore oil producing company in the under-explored and prolific Recôncavo, Sergipe, Espirito Santo, and Tucano basins of Brazil through an active capital program of oil and gas exploration and development drilling in fiscal 2008 and to establish BCH as a successful, self-sufficient drilling and related services company onshore in Brazil.

As described above, on August 25, 2008 BrazAlta entered into a definitive amalgamation agreement for the arm’s length acquisition of all of the issued and outstanding common shares and warrants of a private oil and gas exploration company, Canacol Energy Inc. The intention of the transaction is to diversify BrazAlta E&P activity beyond Brazil, adding both assets, and additional management and oil finding expertise. The closing of the transaction was originally scheduled for September 29, 2008 but has been extended to October 29, 2008 in order to allow for Canacol to complete the tender and consent process of their shareholders. It is BrazAlta’s intention to pursue this diversification strategy on the E&P side of the business going forward.

On the service side, BCH has undergone significant growth and expansion in a very short period of time adding drilling rigs assets, contracts with Petrobras, and building infrastructure in the four main on-shore operating areas in Brazil. BrazAlta believes the future growth prospects in Brazil for BCH are bright but, as disclosed in several press releases, that it remains the intention of BrazAlta to pursue a liquidity event for BCH. Any potential proceeds from a future sale, disposition or initial public offering of BCH will remain within the company to fund future exploration and development activities and will not be distributed to registered shareholders of BrazAlta.

DISCLOSURE OF OUTSTANDING SECURITIES (as at October 28, 2008)

Authorized and Issued Share Capital

Unlimited number of common shares authorized, no par value	
Number of shares issued, June 30, 2008 and October 28, 2008	90,084,661

Options and Warrants Outstanding (as at October 28, 2008)

The following are the outstanding stock options issued by the Corporation and their respective exercise price and expiry date. At June 30, 2008, total vested stock options totalled 6,523,331.

Stock Options Outstanding			
	Number	Exercise Price	Expiry Date Range
	10,000	\$0.35	March 2010
	515,000	\$0.40	March - June 2010
	1,950,000	\$0.75	January 2011
	175,000	\$1.00	February 2011
	100,000	\$1.30	April 2011
	865,000	\$1.20	November 2011
	1,598,334	\$1.20	February 2012
	675,000	\$1.20	June 2012
	160,000	\$1.20	October 2012
	150,000	\$1.20	March 2013
	1,373,000	\$0.65	March 1, 2013
Balance June 30, 2008	7,571,334	\$0.97	
Cancelled	(33,334)	\$1.20	February 2012
Balance October 28, 2008	7,538,000	\$0.97	

The Corporation's subsidiary, BCH, also has a stock option plan for directors and officers of BCH. As of June 30, 2008 there were a total of 800,000 options outstanding. All options were granted at an exercise price of US\$4.16 per BCH Common Share and expire on January 1, 2013.

Warrants Outstanding

	Number	Exercise Price	Expiry Date
	4,167,000	\$2.00	July 10, 2008
	1,505,000	\$1.20	January 8, 2009
	3,500,000	US \$2.00	August 9, 2012
Warrants Outstanding at June 30, 2008	9,172,000	\$1.89	
Expiry of warrants unexercised	(4,167,000)	\$2.00	July 10, 2008
Cancellation of warrants	(3,500,000)	US \$2.00	August 9, 2012
Issuance of warrants on debt financing	10,000,000	\$0.80	
Warrants Outstanding at October 28, 2008	11,505,000	\$0.85	

Subsequent to year-end, the 4,167,000 warrants with an exercise price of \$2.00 expired unexercised. In addition, subsequent to year-end, the 3,500,000 warrants at an exercise price of US\$2.00 were canceled and

replaced with new warrants as part of a new Rancho Hermoso debt financing as discussed above. Under the financing, 10,000,000 new warrants were issued to the lender at a price of C\$0.80 and have an expiry of August 29, 2013. The warrants have a mandatory exercise clause in which they must be exercised if the closing price of BrazAlta's shares exceeds C\$0.95 per share for 60 consecutive trading days.

The Corporation subsidiary, BCH has 250,000 warrants outstanding at an exercise price of US\$10.00 per BCH Common Share with an expiry date of July 2012. They were issued in conjunction with the closing of the term debt facility. All BCH warrants remain outstanding as of the date of this report.

RISK FACTORS

The Corporation is subject to several risk factors including, but not limited to: the volatility of oil and natural gas prices; foreign exchange and currency risks; general risks related to foreign operations such as political, economic and other uncertainties as they relate to energy policies; Brazilian government exercising from time to time significant influence on the economy to control inflation; developing environmental regulations in foreign jurisdictions; discovery of new oil and natural gas reserves; concentration of oil sales receipts with one major customer; that the Corporation anticipates substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the long-term for which it may require additional financings to implement its business plan; and a credit concentration risk of drilling services receivables generated by one major customer.

As the Corporation is not experiencing positive cashflow from operations it has been reliant on access to growth capital in the form of both debt and equity to fund on-going operations and to fund capital investments. The current state of the financial and capital markets severely limits the ability of the Corporation to access capital and there can be no guarantee the Corporation will be able to successfully attract the required investment capital as it has in the past.

The Corporation is also exposed to foreign exchange and currency risk as a result of fluctuations in exchange rates through its cash deposits and investments denominated in Brazil Real and United States dollar as well as its debt balances which are denominated in US dollars. At June 30, 2008, the Corporation held net \$2,064 (BRL 3,234) on deposit in Brazilian currency (June 30, 2007 - \$385) and \$6,957 (US \$6,830) on deposit in US dollar (June 30, 2007 - \$110). The Corporation has debt denominated in the US dollar. At June 30, 2008, the Corporation had \$70,563 (US\$ 69,275) in US dollar denominated debt outstanding (June 30, 2007 - \$Nil).

Much of the Corporation's revenue and exploration and development costs are expected to be received/paid in or by reference to US dollar denominated prices while a significant portion of its operating and general and administrative costs are denominated in Canadian dollars or the Brazilian Real. Currently the Corporation has no hedging position with respect to the US dollar/Canadian dollar exposure.

The Corporation has entered into currency derivatives in order to hedge its exposure to fluctuations between the US dollar and the Brazilian Real. During Q4-F2008, BCH entered into three foreign currency derivative contracts on the Brazilian Real to hedge its currency exposure. These contracts extend through April 2009 and are detailed below:

Period	Notional Balance	Type	Settlement	Average BRL/US Exchange Rate
June 2008 - April 2009	US\$500,000 / month	Non-Deliverable Forward	Financial	1.7621
July 2008 - April 2009	US\$200,000 / month	Deliverable Forward	Physical Delivery	1.7306
July 2008 - April 2009	US\$100,000 / month	Deliverable Forward	Physical Delivery	1.7570

As a result of the current world-wide financial crisis the Brazilian Real has seen significant devaluation since June 30, 2008 of more than 35% against the US\$ and is currently experiencing significant daily fluctuations up and down making this particular currency risk more acute. The sudden swing in sentiment with respect to the Brazilian Real has also put each of the currency derivatives entered into by the Corporation "out of the money".

Periodic fluctuations in energy prices will not only impact the revenues of the Corporation but may also affect lending policies of the Corporation's lenders for new borrowings. This in turn could limit growth

prospects over the short run or may even require the Corporation to dedicate cash flow, dispose of properties, or raise new equity to reduce bank borrowings under circumstances of declining energy prices or disappointing drilling results.

In conjunction with the reserves based revolving line credit facility, the Corporation entered into oil price financial derivative collar in August 2007 with the following terms.

Period	Volume	Type	Price Range
Oct – Dec 2007	95 bbls/day	Financial Brent Crude Oil Collar	US\$60.00 - US\$74.72
Jan – Dec 2008	71 bbls/day	Financial Brent Crude Oil Collar	US\$60.00 - US\$74.72
Jan – Dec 2009	55 bbls/day	Financial Brent Crude Oil Collar	US\$60.00 - US\$74.72
Jan – Aug 2010	55 bbls/day	Financial Brent Crude Oil Collar	US\$60.00 - US\$74.72

While hedging activities may have opportunity costs when realized prices exceed hedged pricing, such transactions are not meant to be speculative and are considered with the broader framework of financial stability and flexibility. Management continuously reviews the need to utilize such financing techniques.

The Corporation has one major lender, Standard Bank Plc. (please note various financings completed with Standard Bank Plc. as outlined in the Liquidity and Capital Resources section of this MD&A). As such the Corporation, remains exposed to risks related to the health and viability of it's lender in the current difficult financial markets, and is exposed to the risk that the particular lender's appetite for the risks and exposures associated with financing junior international company operations. As at June 30, 2008, BCH was in violation of covenants relating to this term debt facility pertaining to minimum working capital balances, debt coverage, and interest coverage. The Corporation has and continues to seek cost reductions in order to generate positive cash flow from operations. Also, the Corporation may need to either obtain a new debt facility or negotiate amendments and/or extensions of its existing debt facility as a result. The Corporation has not yet obtained the waivers from its lenders regarding the covenant violations. While the Corporation is focusing its best efforts on these matters and continues to negotiate with its lender, the outcome cannot be certain at this time. There is, therefore, a risk regarding the Corporation's ability to continue as a going concern with respect to this loan. The accompanying Audited Consolidated Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities, except for the term debt facility which has been reclassified as a current liability due to the fact that it is callable by the lender at any time, that might be necessary should the Corporation be unable to continue in business and therefore be unable to realize its assets and discharge its liabilities in the normal course of business. As a result any such adjustments could be material.

The Corporation attempts to mitigate its business and operational risk exposures by maintaining comprehensive insurance coverage on its assets and operations, by employing or contracting competent technicians and professionals, by instituting and maintaining operational health, safety and environmental standards and procedures and by maintaining a prudent approach to exploration and development activities. The company also addresses and regularly reports on the impact of risks to its shareholders, writing down the carrying values of assets that may not be recoverable.

CRITICAL ACCOUNTING ESTIMATES

BrazAlta's significant accounting policies are contained in Note 2 to the Audited Consolidated Financial Statements for the year ended June 30, 2008. Certain policies are recognized as critical because in applying these policies management is required to make judgments, assumptions and estimates that have a significant impact on the financial results of the Corporation. The estimates used in applying these critical accounting policies are regularly reviewed and have been discussed with the Audit Committee.

Income taxes

The Corporation uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are based on the differences between asset and liability balances reported for financial accounting purposes and those reported for income tax. Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled. Future income tax assets are recognized to the extent that they are more likely than not to be realized.

Property, plant and equipment

Depletion and depreciation

Petroleum and natural gas properties are recorded in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting for the oil and gas industry whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical costs, costs of drilling both productive and non-productive wells, production equipment, and overhead charges directly related to acquisition, exploration, and development activities. Gains or losses on disposal of properties are recognized only when crediting the proceeds to the recorded costs would result in a change of 20% or more in the depletion and depreciation rate.

Ceiling test and unproved properties

An impairment loss is recognized in net earnings when the carrying amount of a cost centre of petroleum and natural gas assets and properties is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is tested for recoverability by determining if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of the cash flows is less than the carrying amount, the impairment loss is limited by the amount by which the carrying amount exceeds the sum of the fair value of the proved and probable reserves and the costs of unproved properties that are subject to a separate impairment test.

Certain costs related to unproved properties and major development projects are excluded from costs subject to depletion and depreciation until the earliest of a portion of the property becomes capable of production, development activity ceases, or impairment occurs. These properties are reviewed quarterly and are subject to a separate impairment test. Any impairment is transferred to the costs being depleted. If the properties are located in a cost centre where there is no reserve base, the impairment is charged directly to earnings.

Depreciation - Drilling and service rig equipment

Drilling rig and service rigs and equipment are depreciated on the basis of unit-of-production over a useful life of 5,000 utilization days and 3,500 utilization days respectively, both with a salvage value of 15%. Utilization days include both operating days and rig move days.

Asset retirement obligations

The fair value of the estimated asset retirement obligations is recognized in the consolidated balance sheet in the period which the liability is identified and incurred and a reasonable estimate of the fair value can be made. The obligations recognized are the legal obligations of the Corporation to retire and perform site restoration on tangible long-lived assets such as well sites. The obligations are discounted to their present value using the Corporation's credit adjusted risk-free interest rate. The corresponding amount increases the carrying amount of the related asset. The liability is accreted over time for changes in the fair value of the liability through charges to accretion expense. The amounts capitalized to the related assets are amortized to earnings over the expected remaining life of the underlying resources using the unit of production method. Actual costs incurred upon settlement of the asset retirement obligations are charged against the obligation to the extent of the liability recorded.

Stock based compensation plan

The Corporation records compensation expense in the consolidated financial statements for stock options granted to employees, directors, and consultants using the fair value method. Fair values are determined using the Black-Scholes option pricing model with compensation costs recognized over their vesting period. Any consideration paid to the Corporation on the exercise of stock options, along with amounts previously credited to contributed surplus, is credited to share capital.

Financial instruments

The Corporation's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, convertible debentures, currency and commodity derivatives, and long-term debt. The fair value of these financial assets and liabilities approximates their carrying value, unless otherwise noted.

Convertible debenture

The Corporation's Convertible Subordinated Secured Debenture has been classified as debt with a portion of

the proceeds representing the value of the conversion option classified as equity. The debt balance accretes over time using the effective interest rate method such that upon maturity the liability balance recorded will equal the maturity value of the debenture. This increase in the debt balance is reflected as non-cash interest expense in the consolidated statement of loss. Where the Corporation's subsidiary has issued convertible debentures the fair value of the conversion right is presented within non-controlling interests in the consolidated balance sheet. Upon conversion of the debenture into common shares by the holder, the debt and equity components are transferred to common share capital.

IMPACT OF NEW AND PROPOSED ACCOUNTING STANDARDS

Accounting Changes

Effective July 1, 2007, the Corporation adopted the revised recommendations of Canadian Institute of Chartered Accountants ("CICA") Handbook section 1506, "Accounting Changes". The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide reliable and more relevant information.

Effective July 1, 2007, the Corporation adopted the CICA section 3855, "Financial Instruments - Recognition and Measurement," section 3865, "Hedges", section 1530, "Comprehensive Income" and section 3861, "Financial Instruments - Disclosure and Presentation", and section 3251 "Equity". The Corporation has adopted these standards retroactively without restatement. The adoption of these new financial instrument standards resulted in changes in the accounting for financial instruments as described below.

In accordance with these new standards, all financial instruments including, both financial and non-financial derivatives and certain embedded derivatives, qualify as assets or liabilities and need to be recorded on the balance sheet. Financial Instruments are categorized into one of five categories which determines their initial measurement value and subsequent recognition of gains and losses. Section 3251 introduces new standards for the presentation of Equity with "Accumulated other comprehensive income" as a result of the application of section 1530.

Financial Instruments

Under Section 3855, all financial instruments are initially measured on the balance sheet at fair value. Subsequent measurement of the financial instruments is based on their classification. The Corporation has classified each financial instrument into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. Loans and receivables, held-to-maturity investments, and other financial liabilities are measured at amortized cost using the effective interest rate method. For all financial assets and financial liabilities that are not classified as held-for-trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability are adjusted to the fair value which is initially recognized for that financial instrument. These costs are netted against the related asset or liability and are expensed using the effective interest rate method and are recorded within interest expense. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. All derivative instruments are recorded in the balance sheet at fair value unless they qualify for the expected purchase, sale, and usage exemption. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

In accordance with the adoption of these new standards, the Corporation has classified all its derivative contracts and cash and cash equivalents as held-for-trading, which are measured at fair value with changes being recognized in net income and the Corporation has maintained its policy not to use hedge accounting. Accounts receivable are classified as loans and receivables and operating bank loans, accounts payable and accrued liabilities, interest payable, capital leases, and long-term debt are classified as other liabilities, all of which are measured at amortized cost. The Corporation has not designated any financial instruments as held to maturity. Held to maturity are items which the Corporation intends to hold until maturity and include non-derivative financial assets with fixed or determinable payments and a fixed maturity. The Corporation also has not designated any financial instruments as available for sale. Available for sale assets are non-derivative financial assets which are not designated into any of the other four categories. The classification of all financial instruments is the same at inception and at June 30, 2008.

Comprehensive Income

Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with GAAP. Due to the issuance of Section 1530, Section 1650 has been replaced by Section 1651 which establishes new standards for presentation of exchange gains and losses arising from the translation of self-sustaining foreign operations in other comprehensive income. The Corporation has no other comprehensive income for the years ended June 30, 2007 or 2008.

Equity

Section 3251, "Equity", which replaces Section 3250, "Surplus", establishes standards for the presentation of equity and changes in equity during the reporting period. The main feature of this section is a requirement for an entity to present separately each of the changes in equity during the period, including comprehensive income, as well as components of equity at the end of the period.

RECENT ACCOUNTING PRONOUNCEMENTS

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning July 1, 2009. It establishes standards 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 Section 3062. The Company does not expect that the adoption of these new Sections will have a material impact on its consolidated financial statements.

Capital Disclosures

The Accounting Standards Board ("AcSB") issued CICA Section 1535, "Capital Disclosures". The main features of this section are to establish requirements for an entity to disclose qualitative information about its objectives, policies, and processes for managing capital, quantitative data about what it regards as capital, and whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The new requirements are effective for annual, and subsequent interim periods thereafter, beginning on or after October 1, 2007, and, upon adoption, are not expected to materially impact the consolidated financial statements.

Other pronouncements

On July 1, 2008, the Corporation will be required to adopt three additional CICA Handbook requirements, section 3862 "Financial Instruments - Disclosures", section 3863 "Financial Instruments - Presentations", section 3031 "Inventories". The effect of these standards will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance, the nature, the extent, and management of risks to which the entity is exposed to arising from financial instruments.

International Financial Reporting Standards (IFRS)

On February 13, 2008, the AcSB confirmed that effective for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canada's current Generally Accepted Accounting Principles for all publicly accountable profit oriented enterprises. The Corporation is currently assessing the effect on its financial reporting practices and requirements and is preparing for this transition.

MAINTENANCE OF DISCLOSURE CONTROLS AND PROCEDURES (DC&P) AND INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Management and the Board of Directors are committed to the promotion of investor confidence by ensuring that trading in the Corporation's securities takes place in an efficient, competitive, and informed market. In accordance with the continuous disclosure requirements under the securities commission rules and TSX Venture Exchange policies, the Corporation has adopted a Corporate Disclosure Policy and has procedures in

place to ensure that any sensitive information is identified, reviewed by management, and disclosed in a timely manner to the regulatory authorities, shareholders, and the public.

However, in contrast to the requirements under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), the Corporation has opted out under the rules afforded to TSX Venture issuers and Management and the Board do not make any representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109. In particular, Management and the Board are not making any representations relating to the establishment and maintenance of:

- i) Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

In addition, Management and the Board would also like to highlight that the Corporation has identified certain weaknesses in ICFR specific to the Corporation which are:

- i) Due to the limited number of staff, it is not possible to achieve segregation of all duties; and
- ii) Due to the limited number of staff, the Corporation has a risk of material misstatement related to non-routine complex accounting matters that may arise.

These weaknesses essentially arise because of the small size of the Corporation and its corresponding small accounting staff. Management and the board of directors have attempted to mitigate the risk of material misstatement in financial reporting related to segregation of duties through a combination of extensive and detailed review by the CFO of the financial reports, the integrity and reputation of senior financial and accounting personnel, and the candid discussion of this risk with our external advisors. The Corporation also employs outside consultants and accounting firms to assist with complex accounting and technical issues. In spite of management's best efforts, there can be no assurance that these risks can be reduced to less than a remote likelihood of a material misstatement.

ADDITIONAL INFORMATION

Additional information relating to the Corporation can be found on its website at www.brazalta.com or on SEDAR at www.sedar.com.

Corporate Information

Management Team

David R.P. Mears – President, CEO and Director

Craig F. Nieboer, C.A. – CFO

Trevor Borden, P. Geoph.

– Vice President Exploration

Luiz Azevedo, MBA – Brazil Country Manager

Board of Directors

John R. MacMillan, P. Eng. – Chairman, Director

David R.P. Mears – President, CEO and Director

Douglas R. Anderson – Director

Lyle F. Dunkley, C.A. – Director

Louis (Lou) W. MacEachern – Director

Alessandro R. Novaes – Director

Robert (Bob) E. Wilson, MBA – Director

Stuart Hensman, M Sc. – Director

Corporate Information

Head Office

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Tel: +1 (403) 561-1648

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Brazil Office

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20090-003

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Auditors

Deloitte & Touche LLP Calgary, Alberta

Bankers

HSBC Bank Canada and Brasil

Calgary, Alberta and Rio de Janeiro - RJ, Brazil

Independent Reserve Engineers

DeGolyer and MacNaughton Canada Limited Calgary, Alberta

Legal Counsel

Davis & Company LLP

Calgary, Alberta

Schmidt, Valois, Miranda, Ferreira e Agel –

Advogados Rio de Janeiro - RJ, Brazil

Stock Exchange Listing

TSX Venture Exchange: BRX

Transfer Agent & Registrar

Olympia Trust Company

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