

Sales volumes

Natural gas (Mcf/d)	910	471	93
Natural gas liquids (bbls/d)	14	3	367
Combined (Mcf/d)	994	489	103
Operating netbacks (\$/Mcf)			
Average selling prices	9.90	6.05	64
Production expenses	0.77	3.00	-74
Severance Taxes	0.73	0.43	69
Transportation expenses	0.17	0.05	240
Operating netback	8.22	2.58	219

Share Data

Weighted average outstanding (including exchangeables)	145,675,139	73,336,717	99
Equity outstanding - end of period			
Common	119,319,000	49,940,000	139
Warrants	20,500,000	22,400,000	-8
Stock options	6,585,000	3,965,000	66

W. Michael Ford, Chief Executive Officer of the Company commented:

“In addition to the reported financial results for the third quarter of 2008, we are pleased to be able to announce continued success in our exploration and production activities as well. We are seeing positive production results from our recent drilling program and expect to see further reserve growth as a result.

We have sufficient cash resources to ensure continued drilling during this difficult economic climate, and we are well positioned to take advantage of anticipated lower drilling, producing and acreage costs. Therefore, we will be delaying projects where possible to benefit from the anticipated lower costs in the future.”

Operational Update

Exploration and Production Activity:

Glass Ranch (Wolfberry) Property – Upton County, Texas, in addition to the previously announced successes on this property, the Glass Ranch A #3 well has successfully encountered hydrocarbons. The well reached a total depth of 10,425 feet on September 14, 2008. Electric logs indicated multiple potential pay sands in the Wolfcamp and Spraberry formations and completion operations have commenced.

Caza, as non-operator, currently has a 50.0% working interest and a corresponding 39.08% net revenue interest before payout of the well, which will change after payout to an estimated 47.41% working interest and an estimated 36.32% net revenue interest.

Caza is extremely pleased with the drilling success on the Glass Ranch Property. Initial results suggest the potential for an additional 14 well locations on 80 acre spacing. The first well stimulated was the Glass Ranch A #1 well, which is currently producing at a gross rate of 140 barrels of oil per day and is expected to continue to improve as fracture fluids are recovered. The Glass Ranch A #3 well has also been stimulated and is currently producing hydrocarbons along with fracture stimulation fluids. Caza expects this well to continue cleaning up and, along with the B #1 and B #3 wells, to perform similarly to the A #1 well.

The Wolfberry trend in the Permian Basin of West Texas has been widely successful and Caza continues to pursue additional acreage throughout this trend.

With the success of the Glass Ranch wells, and the Wolfberry play in general, Caza has recently acquired two year term leases on an additional 1,200 acres of prospective Wolfberry acreage in Upton County, Texas. Caza will refer to this area as the Windham (Wolfberry) Property. In addition, Caza has recently acquired three year term leases on 807 acres of prospective Wolfberry acreage in Crockett and Reagan Counties, Texas. The acreage comprises two properties: Sheep Mountain (Crockett) and Grierson (Reagan). Caza, as operator, has a 50% working interest in all three properties and is currently evaluating future work schedules.

Hite Offset Property - Development Update – Wharton County, Texas, the Dorothy Hite Gas Unit #3 (Wilcox) well (“DHGU #3”) located in the Wharton West Wilcox Field has successfully encountered hydrocarbons and is now in production and flowing at a current, gross rate of 4.4 million cubic feet of gas per day through a 12/64 choke at 5,075 psi. The DHGU #3 is a development well drilled in the Dorothy Hite Gas Unit and is contiguous to Caza’s Matthys-McMillan Gas Unit. Caza, as a non-operator, acquired its working interest in the DHGU #3 via farmout on a 1/3 for 1/4 promoted basis through the casing point. The DHGU #3 well has confirmed the extension of productive limits within the Wharton West Wilcox Field, which supports additional development drilling on Caza’s HBP (held by production) acreage offsetting its Matthys-McMillan Gas Unit #1 well. Due to current market conditions and in order to conserve capital, Caza has not scheduled further development drilling at this time.

Caza, as non-operator, currently has a 4.51% working interest (which changed after casing point from a 6.02% working interest) and a corresponding 3.51% net revenue interest.

Aldwell Ranch Property – Sutton County, Texas, the FEM 14-12 well in the Sawyer (Canyon) Field has successfully encountered hydrocarbons. The well reached a total depth of 7,855 feet on August 27, 2008. Electric logs indicated multiple potential pay sands in the Canyon formation. The well has been fracture stimulated and is currently being evaluated while flowing back.

Caza, as non-operator, currently has a 48.44% working interest and a corresponding 36.33% net revenue interest in the FEM 14 -12 well.

Southeast New Mexico Program - Lea County, New Mexico – Caza is delighted to announce that it has recently leased approximately 7,362 gross acres in three separate properties located in the developing Wolfcamp horizontal oil and gas play of Lea County, New Mexico. Caza continues to build its acreage position focusing its leasing efforts in the oil prone regions of the play. Caza refers to the three properties as Moore Cap (3,642 gross acres), Sombrero (1280 gross acres) and Bada-Bing (2,440 gross acres). Caza, as operator, has a 50% working interest in all three properties and is currently evaluating future work schedules. This acreage was acquired in conjunction with the exploration agreement between Caza and Wise Oil & Gas No. 8, Ltd., as announced in a release dated July 3, 2008.

South Louisiana – St. Landry Parish, Louisiana, the Thisco #3 well reached a total depth of 8,232 feet on October 17, 2008. Based on electric logs and sidewall core data the well was completed in the Frio formation and production testing commenced. Instantaneous flow rates up to 173 gross barrels of oil per day were seen during testing, and the well is currently being placed on production.

Caza, as non-operator, currently has a 22% working interest (which changed after casing point from a 44% working interest) and a corresponding 16.28% net revenue interest.

Outlook

Despite well publicized difficult market conditions, our belief is that the fundamentals of Caza's business are sound. We anticipate the current situation to result in markedly lower costs for drilling and producing operations. Accordingly, we are taking advantage of the flexibility afforded by our long term leases and delaying projects where possible to benefit from these anticipated, lower costs in the future.

Caza's cash and cash equivalents balance as of September 30, 2008, was \$17.8m. Our cash position along with long term leases and a diverse project portfolio will allow us the flexibility to modify our drilling program for 2009 to take advantage of anticipated, lower drilling costs, changing commodity prices and drilling success. Our recent exploration success should enable us to maintain a healthy cash balance during this difficult economic climate.

About Caza

Caza is engaged in the acquisition, exploration, development and production of hydrocarbons in the Texas Gulf Coast (on-shore), south Louisiana, southeast New Mexico and the Permian Basin of west Texas regions of the United States of America through its subsidiary, Caza Petroleum, Inc.

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In accordance with AIM Rules – Guidance Note for Mining, Oil and Gas Companies, the information contained in this announcement has been reviewed and approved by Anthony B. Sam, Vice President Operations of Caza who is a Petroleum Engineer and a member of The Society of Petroleum Engineers.

ADVISORY REGARDING FORWARD-LOOKING STATEMENTS – In the interests of providing Caza shareholders and potential investors with information regarding Caza, including management’s assessment of Caza’s and its subsidiaries’ future plans and operations, certain statements contained in this news release are forward-looking statements or information within the meaning of applicable securities legislation, collectively referred to herein as “forward-looking statements.” Forward-looking statements in this news release include, but are not limited to: future economic and operating performance (including per share growth, cash flow and increase in net asset value); anticipated growth and success of resource plays and the expected characteristics of resource plays; free cash flow which may be generated in 2008 and beyond, and potential uses for such free cash flow; anticipated production and sales of oil, natural gas and NGLs in 2008; anticipated impact and success of Caza’s price hedging strategy, if any; anticipated costs; anticipated prices for oil and natural gas; anticipated capital investment in 2008 and the allocation thereof; anticipated capital inflation; anticipated capital and operating cost efficiencies; anticipated growth in hydrocarbon production; forecast cash flow for 2008 and the anticipated ability to meet guidance targets. Statements regarding flow rates in this news release are current only as of the date hereof. Future flow rates may vary, perhaps materially, and the wells in question may prove to be technically or economically unviable. Any future flow rates will be subject to the risks and uncertainties set out in this news release.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause the company’s actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other

things: volatility of and assumptions regarding oil and gas prices; assumptions based upon the company's current guidance; fluctuations in currency exchange and interest rates; product supply and demand; market competition; well flow rates and the hydrocarbons ultimately recoverable from wells, operating risks, water encroachment, risks inherent in the company's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids from resource plays and other sources not currently classified as proved; the company's ability to replace and expand oil and gas reserves; the company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the company's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; the company's ability to secure adequate product transportation; changes in royalty, tax, environmental and other laws or regulations or the interpretations of such laws or regulations; the risk of terrorist threats; risks associated with future lawsuits and regulatory actions made against the company; and other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Caza.

Although Caza believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this news release are made as of the date of this news release, and, except as required by law or regulation, Caza does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

Neither the Toronto Stock Exchange nor AIM has either approved or disapproved the information contained herein.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following interim Management's Discussion and Analysis ("MD&A") of the financial results for Caza Oil & Gas, Inc. ("Caza" or the "Company") should be read in conjunction with the unaudited consolidated interim financial statements as at and for the three and nine month periods ended September 30, 2008, the annual information form, the audited consolidated financial statements and corresponding MD&A for the year ended December 31, 2007. Additional information relating to the Company can be found on SEDAR at www.sedar.com. All figures herein have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") unless otherwise stated. This MD&A is dated November 10, 2008.

Forward Looking Information

In addition to historical information, the MD&A contains forward-looking statements that are generally identifiable as any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events of performance (often, but not always, through the use of words or phrases such as "will", "may", "will likely result," "expected," "is anticipated," "believes," "estimated," "intends," "plans," "projection" and "outlook"), are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in such forward-looking statements.

These statements are based on certain factors and assumptions regarding the results of operations, the performance of projected activities and business opportunities. Specifically, we have used historical knowledge and current industry trends to project budgeted expenditures for 2008 and into 2009. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect.

Actual results achieved during the forecast period will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: risks associated with the Company's stage of development; competitive conditions; share price volatility; risks associated with crude oil and natural gas exploration and development; risks related to the inherent uncertainty of reserves and resources estimates; possible imperfections in title to properties; the volatility of crude oil and natural gas prices and markets; environmental regulation and associated risks; loss of key personnel; operating and insurance risks; the inability to add reserves; risks associated with industry conditions; the ability to obtain additional financing on acceptable terms if at all; non operator activities; the inability of investors in certain jurisdictions to bring actions to enforce judgments; equipment unavailability; potential conflicts of interest; risks related to operations through subsidiaries; risks related to foreign operations; currency exchange rate risks and other factors, many of which are beyond the control of the Company. Accordingly, there is no representation by Caza that actual results achieved during the forecast period will be the same in whole or in part as that forecast. Further, Caza undertakes no obligation to update or revise any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Non-GAAP Measures

The financial data presented herein has been prepared in accordance with GAAP. The Company has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include "operating netback" and "funds flow from (used in) operations". Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales and is calculated by deducting royalties and operating expenses from revenues. Funds flow from (used in) operations is cash flow from operating activities before changes in non-cash working capital, and is used to analyze operations, performance and liquidity. These measures are not defined under GAAP and should not be considered in isolation or as an alternative to conventional GAAP measures. These measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity. When these measures are used, they are defined as "non GAAP" and should be given careful consideration by the reader.

Note Regarding Boe and Mcfe

In this MD&A, barrels of oil equivalent ("Boes") are derived by converting gas to oil in the ratio of six thousand cubic feet ("Mcf") of gas to one barrel ("bbl") of oil (6 Mcf: 1 bbl) and one thousand cubic feet of gas equivalent ("Mcfes") are derived by converting oil to gas in the ratio of one bbl of oil to six Mcf (1 bbl: 6 Mcf). Boes and Mcfes may be misleading, particularly if used in isolation. A Boe conversion of 6 Mcf of natural gas to 1 bbl of oil, or a Mcfe conversion ratio of 1 bbl of oil to 6 Mcf of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

Currency

References to "dollars" and "\$" are of U.S. dollars and references to "CDN\$" are to Canadian dollars.

Operating Netback Summary

The following table reconciles the Company's operating netback which is a non-GAAP measure:

(on a Mcfe basis)	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
Oil and natural gas revenue	\$ 9.90	\$ 6.05	\$ 10.02	\$ 6.84
Production expense	(0.77)	(3.00)	(0.74)	(1.81)
Severance expense	(0.73)	(0.43)	(0.71)	(0.54)
Transportation expense	(0.17)	(0.05)	(0.14)	(0.02)
Operating netback (non-GAAP)	8.22	2.58	8.43	4.47

FINANCIAL AND OPERATING RESULTS

Petroleum and Production Revenue

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
Natural gas				
Production (Mcf)	83,727	43,295	257,655	109,660
Revenue (\$)	772,393	252,231	2,483,020	732,698
Price (\$/Mcf)	9.23	5.83	9.64	6.68
Natural gas liquids				
Production (bbls)	1,289	286	2,013	725
Revenue (\$/bbl)	132,662	20,311	218,683	47,005
Price (\$/bbl)	102.89	71.00	108.66	64.86
Combined				
Production (Mcf)	91,463	45,012	269,731	114,008
Revenue (\$)	905,055	272,542	2,701,703	779,703
Price (\$/Mcf)	9.90	6.05	10.02	6.84
Mcf/d	994	489	984	418
Boe/d	166	82	164	70

Natural gas and natural gas liquids revenues increased 232% to \$905,055 for the three-month period ended September 30, 2008 from \$272,543 for the three-month period ended September 30, 2007. Caza production volumes increased 103% to 91,463 Mcfe for the three-month period ended September 30, 2008 up from 45,012 Mcfe for the comparative period. This represents an average daily production rate increase of 103% for the three months ended September 30, 2008 of 994 Mcfe/d as compared to 489 Mcfe/d for the comparative period. The average natural gas price received by Caza increased 64% to \$9.90 per Mcfe during the three-month period ended September 30, 2008 from \$6.05 per Mcfe during the comparative period. The increase in revenues and production volumes for the three and nine month period ended September 30, 2008 is a result of four wells coming on line late in the third quarter of 2007 and an increase in the North American spot price of natural gas received in the respective 2008 periods. Our future revenue and production

volumes will be directly affected by North American natural gas prices, existing wells performance, drilling success and the timing of the tie-in of wells into gathering systems. Presently the Company has not hedged any of its production and does not have any commodity price management programs in place.

Production Expenses

	Three Months ended		Nine Months ended	
	September 30, 2008	2007	September 30, 2008	2007
Severance tax (\$)	67,074	19,274	190,857	61,784
Transportation (\$)	15,489	2,084	37,672	2,084
Production (\$)	70,766	134,951	199,764	205,998
Severance, transportation and production (\$)	153,329	156,310	428,293	269,867
Severance, transportation and production (\$/Mcf)	1.68	3.47	1.59	2.37

Severance tax is a tax imposed by states on natural resources such as crude oil, natural gas and condensate extracted from the ground. The tax is calculated by applying a rate to the dollar amount of production from the property or a set dollar amount applied to the volumes produced from the property. The increase in severance taxes and transportation expenses are a result of increases in production volumes in the 2008 three and nine month periods as compared to the respective periods in 2007.

The increase in severance taxes and the transportation expense is consistent with the increase in revenues and production volumes. Severance taxes and transportation expenses totaled \$82,563 (\$0.90/Mcfe) for the three-month period ended September 30, 2008, as compared to \$21,358 (\$0.47/Mcfe) in the comparative period.

Production expenses for the three-month period ended September 30, 2008 were \$70,766 compared to \$134,951 for the comparative period. Caza's average lifting cost for the three-month period ended September 30, 2008 was \$0.77 per Mcfe versus \$3.00 per Mcfe for the comparative period. The decrease in per unit production expense was attributable to the drilling of additional wells in the latter half of 2007 and to date in 2008 along with increased production rates.

Depletion, Depreciation and Accretion

Depletion, depreciation, amortization and accretion expense for the first nine months of 2008 increased to \$323,608 (\$3.54/Mcfe) from \$104,269 (\$2.32/Mcfe) in the comparative period.

	Three Months ended		Nine Months ended	
	September 30, 2008	2007	September 30, 2008	2007
Depletion and depreciation (\$)	320,042	103,433	991,152	212,120
Accretion (\$)	3,566	836	10,698	2,507
Depletion, depreciation and accretion (\$)	323,608	104,269	1,001,850	214,626
Depletion, depreciation and accretion (\$/Mcf)	3.54	2.32	3.71	1.88

The increased expense resulted from drilling costs associated with the drilling of 3 gross (1.26 net) wells in the latter half of 2007 and 11 gross (4.56 net) to date in 2008 along with increased production rates in the 2008 periods.

Costs of unproved properties of \$20,019,239 were excluded from depletable costs in accordance with Canadian Institute of Chartered Accountants (“CICA”) Accounting Guideline 16. A proportionate amount of the carrying value will be transferred to the depletable pool as reserves are proven through the execution of Caza’s exploration program.

Accretion expense is the increase in the present value of the asset retirement obligation for the current period and the amount of this expense will increase commensurate with the asset retirement obligation as new wells are drilled or acquired through acquisitions.

General and Administrative Expenses

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
General and administrative (\$)	1,889,194	1,146,919	4,606,074	2,406,718
General and administrative recovery (\$)	(31,857)	(41,504)	(148,921)	(87,426)
Net general and administrative (\$)	1,857,337	1,105,415	4,457,153	2,319,292
General and administrative (\$/Mcf)	20.66	25.48	17.08	21.11
Net general and administrative (\$/Mcf)	20.31	24.56	16.52	20.34

On a Mcfe basis the net general and administrative expenses decreased 17% and 19% for the respective three and nine month periods ended September 30, 2008. Stock-based compensation expense in the amount of \$149,215 (2007- \$64,175) is included in general and administrative expenses for the three month period ended September 30, 2008 and \$401,441 (2007 - \$304,287) for the nine month period ended September 30, 2008. Increased salaries, wages and consulting fees as a result of increases in staff numbers along with increased professional service expenses were the primary factors responsible for the increase in total general and administrative expenses when compared to the respective comparative periods. During the nine month period ended September 30, 2008, Caza capitalized general and administrative expenses relating to exploration and development activities of \$909,416, of which \$166,865 related to capitalized stock-based compensation.

Income Taxes

Presently the Company does not expect to pay current taxes into the foreseeable future based on existing tax pools, planned capital activities, dispositions and current forecasts of taxable income. However, the Company’s tax horizon will ultimately depend on several factors including commodity prices, property dispositions, future production, corporate expenses, and capital expenditures to be incurred in future reporting periods. During the current quarter the Company wrote-off \$850,560 of previously recognized future tax assets due to the criteria for recognition no longer being met. Estimated income tax losses available to be carried forward as at October 1, 2008 are as follows:

Expiring at December 31,	Amounts	US
2026	1,524,000	
2027	11,085,000	
2028	7,866,000	

Net loss

Caza incurred a net loss of \$2,164,475 for the three month period ended September 30, 2008 and a net loss of \$3,336,861 for the nine month period ended September 30, 2008 as compared to a net loss of \$673,096 during the comparative period and a net loss of \$1,223,169 for the nine month period ended September 30, 2007. The increase in net loss from the comparative period occurred as a result of increases in staff numbers and the expenses related to being a publicly listed company and the reversal of the tax provisions.

Investments

Interest income for the three-month period ended September 30, 2008 was \$132,295 and \$277,208 for the nine month period ended September 30, 2008 a reduction from \$392,591 during the nine month period ended September 30, 2007. Interest was earned on the proceeds from Caza's initial brokered private placement, which was principally completed in the fourth quarter of 2006, from Caza's initial public offering, which was completed December 12, 2007 and from funds raised in the brokered private placement completed during June and July of 2008. Caza invested the proceeds from these financings in short-term money market funds. The Company does not hold any asset backed paper.

Funds flow from (used in) operations (Non-GAAP)

The following is a reconciliation of funds flow from (used) in operations to net loss.

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
Net loss	(2,164,475)	(673,096)	(3,336,861)	(1,223,169)
Non-cash items, net	1,323,383	(135,118)	1,829,373	110,591
Asset retirement obligations settled	-	-	(9,767)	-
Funds flow used in operations (i)	(841,092)	(808,214)	(1,517,255)	(1,112,578)
Funds flow loss per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.02)

(i) Funds flow from (used) in operations is cash flow from operating activities before changes in non-cash working capital, and is used to analyze operations, performance and liquidity and is a non-GAAP measure.

Capital Expenditures

By Type (\$)	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
Drilling and completions	4,283,732	2,689,411	9,840,167	4,345,178
Seismic	-	5,547	166,314	66,647
Facilities and lease equipment	175,690	327,289	1,438,223	923,452
Office furnishings and equipment	47,761	107,819	121,969	480,453
Leasehold geological /geophysical	1,664,782	1,408,481	1,955,737	3,813,932
Other costs (recovery)	519,147	(808,530)	559,009	(448,867)
Total	6,691,112	3,730,017	14,081,419	9,180,795

During the nine month period ended September 30, 2008, Caza drilled 11 gross wells (4.56 net) completed 6 (1.94 net) of the wells, commenced completion operations on 4 wells (1.97 net) to tie these wells into their respective gathering systems and one (0.65 net) dry hole with an overall success rate of 85%. Drilling activities during the first nine months were concentrated in the Wilcox 116 prospect located in Texas and the Lynch property located in New Mexico as well

as the Eland and Puku prospects located in Wharton County, Texas. Caza also participated as a non-operated 50% interest in the drilling of the Glass Ranch prospect located in Upton County Texas. Given Caza's current working capital surplus of approximately \$15.7 million, we anticipate participating in the drilling of 7 gross wells (3.0 net) and completing the 3 gross wells (1.5 net) drilled during the next quarter.

Outstanding Share Data

Caza is authorized to issue an unlimited number of common shares without par value, of which 119,319,000 common shares are currently issued and outstanding at November 10, 2008.

Holders of common shares are entitled to one vote per share on all matters voted on a poll by shareholders, and are entitled to receive dividends when and if declared by the board of directors out of funds legally available for the payment of dividends. Upon Caza's liquidation or winding up or other distribution of its assets among its shareholders for the purpose of winding up its affairs, holders of common shares are entitled to share pro rata in any assets available for distribution to shareholders after payment of all obligations of the Company. Holders of common shares do not have any cumulative voting rights or pre-emptive rights to subscribe for any additional common shares.

The following table sets forth the classes and number of outstanding equity securities of the Company and the number of issued and issuable common shares on a fully diluted basis.

Issued and Issuable Securities

Common Shares

Issued and outstanding	119,319,000
Issuable from exchangeable rights	26,502,000
Issuable from exercise of warrants	19,800,000
Issuable from exercise of broker warrants	700,000
Issuable from exercise of stock options	<u>6,585,000</u>
Total Common Shares issued and issuable	<u>172,906,000</u>

Warrants Issued and Outstanding

Warrants to purchase common shares	19,800,000
Broker warrants	<u>700,000</u>
Total warrants	<u>20,500,000</u>

Stock Options Issued

Management stock options outstanding	6,585,000
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Commitments

The following is a summary of the estimated amounts required to fulfill Caza's remaining contractual commitments as at September 30, 2008:

Type of Obligation (\$)	Total	<1 Year	1-3 Years	4-5 Years	Thereafter
Operating leases	293,698	245,024	48,674	-	-
Asset retirement	728,373	-	94,195	-	634,178

obligations

Total contractual commitments	1,022,071	245,024	142,869	-	634,178
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Liquidity and Capital Resources

At September 30, 2008, Caza had a working capital surplus of \$15,710,798 as compared to \$20,158,364 for the period ended June 30, 2008 and \$9,923,093 as at December 31, 2007. This increase in working capital from December 31, 2007 resulted primarily from the private placement completed by Caza in June and July of 2008. Caza had a cash balance of \$17,793,687 as of September 30, 2008 and had no bank credit facilities drawn or in place.

On June 27, 2008 the Company completed a private placement of £9,956,790 representing 43,290,392 shares at a price of 23 pence per unit, or approximately \$0.46. Funds in the amount of \$18,301,741 net of closing costs of \$1,478,544 were received in June of 2008. On July 3, 2008 the Company completed the private placement and received an additional £1,543,210 for total proceeds of \$3,084,668 representing 6,709,608 shares.

Caza will typically use four sources of funding to finance its capital expenditures program: internally generated cash flow from operations, the sale of properties, bank debt where appropriate if available, and new equity issues. With the final tranche of the financing completed on July 3, 2008, the Company has the capital resources to complete its planned capital program for the next twelve months.

The Company's investing activities in the Quarter consisted primarily of expenditures on its capital program. As a result of the current international credit crisis, capital markets with respect to both equities and debt have tightened significantly. However, due to the \$21.4 million financing completed in the current and second quarter management anticipates that the Company will have adequate liquidity to fund its funds flow deficiency and budgeted capital expenditures. Should natural gas prices weaken for a protracted period, the Company may choose to reduce budgeted capital expenditures or reductions in general and administrative costs.

Caza and its subsidiary Caza Petroleum Inc. may be considered to be "related parties" for the purposes of Multilateral Instrument 61-101 of the Canadian Securities Administrators. As a

result, Caza or Caza Petroleum Inc. may be required to obtain a formal valuation or disinterested shareholder approval before completing certain transactions with the other party.

Transactions with Related Parties

The Vice President, Exploration of Caza Petroleum, prior to becoming an employee, was a consultant to Caza Petroleum and as a consultant was eligible to receive a 2% carried working interest (subject to proportionate reduction based on Caza Petroleum's working interest) to casing point in the initial test well in certain prospects. The applicable prospects are the Bongo, Puku, Eland and Sable properties. Since becoming an employee, this individual is no longer eligible to receive additional interests beyond those described.

In February 2008, Caza Petroleum entered into a farmout agreement with Singular Oil & Gas Sands, LLC ("Singular") to participate in the drilling of the Jonell Cerny well in Wharton County, Texas. Under the terms of that agreement, Singular paid 13.33% of the drilling costs through completion of the Jonell Cerny well to earn a 10.00% interest in the property thereafter. This participation was in the normal course of Caza's business and on substantially the same terms and conditions to those of other joint venture partners. Singular is a related party as it is a company under common control with Zoneplan Limited, which is a significant shareholder of Caza.

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts which are comparable to those negotiated with unrelated third parties.

Summary of Quarterly Results

	Three months ended September 30, 2008	Three months ended June 30, 2008	Three months ended March 31, 2008	Three months ended December 31, 2007
Petroleum and natural gas sales	905,055	1,067,364	729,284	600,431
Net income (loss)	(2,164,475)	(536,701)	(635,685)	(554,402)
Per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Funds flow from (used in) operations (non-GAAP) ⁽¹⁾	(841,092)	(326,850)	(349,312)	(427,153)
Per share – basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)
Net capital expenditures	6,691,112	3,237,140	4,153,167	3,047,631
Average daily production (Mcf/d)	994	1,005	953	1,019
Weighted average shares outstanding	145,675,139	97,723,874	95,821,000	80,782,196
Current shares outstanding at November 10, 2008	119,319,000			
	Three months ended September 30, 2007	Three months ended June 30, 2007	Three months ended March 31, 2007	Three months ended December 31, 2006
Petroleum and natural gas sales	272,543	266,597	240,563	158,177
Net income (loss)	(673,096)	(420,057)	(130,016)	143,893
Per share – basic and diluted	(0.01)	(0.01)	(0.00)	0.00
Funds flow from (used in) operations (non-GAAP) ⁽¹⁾	(808,214)	(263,786)	(40,578)	341,893
Per share – basic and diluted	(0.01)	(0.00)	(0.00)	0.01
Net capital expenditures	3,730,017	1,277,200	4,173,578	3,257,568
Average daily production (Mcf/d)	489	406	356	294
Weighted average shares outstanding	73,336,717	73,000,000	72,827,556	67,950,466

(1) Calculated based on cash flow from operations before changes in non-cash working capital.

Factors that have caused variations over the quarters:

- The Company drilled 15 gross (5.93 net) wells in Texas, New Mexico and Louisiana during 2007 and the first nine months of 2008 of which 8 gross (2.61 net) wells were completed and 3 gross (1.50 net) are currently undergoing completion activities. One well is waiting further completion operations pending the drilling of an appraisal well.
- The increase in production commencing in the fourth quarter of 2007 is directly attributable to the Company's 2007 drilling success.
- In two separate transactions during the first quarter of 2008, Caza purchased the participation rights of third parties who had the option to participate for 25% of Caza's potential working interest in all projects located under certain Transition Zone seismic data volumes covering approximately 2,300 square miles located in South Louisiana and the Texas Gulf Coast Regions. As a result of the transactions, Caza increased its potential working interest and has a controlling interest in projects derived from these data volumes.
- Caza's net loss increased commencing in the third quarter of 2007 as a result of growth in general and administrative expenses associated with the Company's going public and increased exploration activities in the fourth quarter of 2007.

- Funds flow from (used in) operations increased in the quarter ended September 30, 2007 as a result of staffing increases in anticipation of going public as well as consulting and other expenses associated with operating a public company.
- Caza purchased a 50% participation right in approximately 6,080 gross in two separate properties located in Lea County New Mexico. Caza refers to the two properties as the Moore Cap (3,640 gross acres) and the Bada-Bing (2,440 gross acres)
- Two Hurricanes during the third quarter caused Caza to shut in 8 of it's producing wells for a cumulative period equal to 72 days. This caused production volumes to decrease during this period. The wells incurred little to no damage and all wells were brought back on line.

Financial Instruments

Crude oil and natural gas operations involve certain risks and uncertainties. These risks include, but are not limited to, commodity prices, foreign exchange rates, interest rates, credit, operational and safety.

Operational risks are managed through a comprehensive insurance program designed to protect the Company from significant losses arising from risk exposures. Risks associated with commodity prices, interest and exchange rates are generally beyond the control of the Company; however, various hedging products may be considered to reduce the volatility in these areas.

Safety and environmental risks are addressed by compliance with government regulations as well as adoption and compliance of the Company's safety and environmental standards policy.

The Company is exposed to concentration of credit risk in its cash and cash equivalents, and its accounts receivable as substantially all of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company mitigates this risk by entering into transactions with long-standing, reputable counter parties and partners. If significant amounts of capital are to be spent on behalf of a joint venture partner, the partner is "cash called" in advance of the capital spending taking place.

Critical Accounting Estimates

Certain of our accounting policies require that we make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. For a discussion about those accounting policies, please refer to our annual management's discussion and analysis and Note 2 of the corresponding audited consolidated financial statements for the year ended December 31, 2007 available at www.sedar.com.

Recent Accounting Pronouncements

As of January 1, 2008, Caza adopted the CICA Handbook Sections 3862, “Financial Instruments – Disclosures”, 3863, “Financial Instruments – Presentation”, and 1535, “Capital Disclosures.” For a detailed discussion about the accounting policies adopted see Note 2 of the consolidated interim financial statements as at and for the three and nine month periods ended September 30, 2008.

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company:

- As of January 1, 2009, Caza will be required to adopt CICA Handbook Section 3064 Goodwill and Intangible Assets which replaces CICA Handbook Sections 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The adoption is not expected to have a material impact on its financial statements.
- The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after Jan. 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. Caza is currently evaluating the impact of adopting IFRS.

Risks and Uncertainties

For a discussion about risk and uncertainties, that may materially affect Caza’s business, please refer to heading “Forward Looking Information” above and the Company’s Annual Information Form for the year ended December 31, 2007 available at www.sedar.com.

Changes to Internal control over Financial Reporting

There were no changes to Caza’s internal control over financial reporting during the third quarter of 2008, which have materially affected, or are reasonably likely to materially affect Caza’s internal control over financial reporting.

During the Quarter, national instrument 52-109 was issued and will be effective for Caza's 2008 year end reporting. The rule includes the certification of the operating effectiveness of internal controls over financial reporting ("ICFR"), requires the use of a control framework to design and evaluate internal controls, provides specific guidance regarding the documentation of controls, as well as the documentation on testing and evaluating controls, and provides clarification regarding the definition of a material weakness and conclusions on disclosure controls and procedures when there is a material weakness in ICFR. Caza has examined the rule and will be compliant on the effective date.

Caza Oil & Gas, Inc.
Consolidated Balance Sheets
(Unaudited)

(In United States dollars)	September 30, 2008	December 31, 2007
Assets		
Current		
Cash and cash equivalents	\$ 17,793,687	\$ 13,194,589
Accounts receivable	3,106,483	3,270,633
Prepaid and other	86,105	334,516
	20,986,275	16,799,738
Petroleum and equipment (Note 3)	33,803,976	20,353,626
Future income tax asset	-	426,082
	\$ 54,790,251	\$ 37,579,446
 Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 5,275,447	\$ 6,876,645
Asset retirement obligations (Note 4)	480,168	286,019
	5,755,615	7,162,664
Shareholders' Equity		
Share capital (Note 5(b))	51,481,597	30,810,788
Contributed surplus (Note 5(f))	4,071,340	2,787,434
Deficit	(6,518,301)	(3,181,440)
	49,034,636	30,416,782
	\$ 54,790,251	\$ 37,579,446

See accompanying notes to the interim consolidated financial statements

Caza Oil & Gas, Inc.

**Consolidated Statements of Net Loss, Comprehensive Loss, and Deficit
(Unaudited)**

(In United States dollars)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue				
Petroleum and natural gas	\$ 905,055	\$ 272,543	\$ 2,701,703	\$ 779,703
Interest income and other income	132,295	113,176	277,208	392,591
	1,037,350	385,719	2,978,911	1,172,294
Expenses				
Production	153,329	156,310	428,293	269,867
General and administrative	1,857,337	1,105,415	4,457,153	2,319,292
Depletion, depreciation, amortization and accretion	323,608	104,269	1,001,850	214,626
	2,334,274	1,365,994	5,887,296	2,803,785
Loss before income taxes	(1,296,924)	(980,275)	(2,908,385)	(1,631,491)
Income taxes				
Current income taxes	16,991	(3,617)	2,394	-
Future income (tax recovery)	850,560	(303,562)	426,082	(408,322)
	867,551	(307,179)	428,476	(408,322)
Net loss and comprehensive loss	(2,164,475)	(673,096)	(3,336,861)	(1,223,169)
Deficit, Beginning of Period	(4,353,826)	(1,953,949)	(3,181,440)	(1,403,876)
Deficit, End of Period	<u>\$(6,518,301)</u>	<u>\$(2,627,045)</u>	<u>\$(6,518,301)</u>	<u>\$(2,627,045)</u>
Loss per share basic and diluted	<u>\$(0.01)</u>	<u>\$ (0.01)</u>	<u>\$(0.03)</u>	<u>\$ (0.02)</u>
Weighted average shares outstanding basic and diluted ⁽¹⁾	<u>145,675,139</u>	<u>73,336,717</u>	<u>113,192,322</u>	<u>73,056,623</u>

(1) The options and warrants have been excluded from the diluted loss per share computation as they are anti-dilutive.

See accompanying notes to the interim consolidated financial statements

Caza Oil & Gas, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In United States dollars)	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net loss	(2,164,475)	(673,096)	(3,336,861)	(1,223,169)
Adjustments for items not affecting cash:				
Depletion, depreciation, amortization and accretion	323,608	104,269	1,001,850	214,626
Stock-based compensation	149,215	64,175	401,441	304,287
Future income tax (recovery)	850,560	(303,562)	426,082	(408,322)
Asset retirement obligations settled	-	-	(9,767)	-
Changes in non-cash working capital (Note 8(a))	1,529,745	(434,943)	1,232,985	2,377,224
Cash flows from (used in) operating activities	688,653	(1,243,157)	(284,270)	1,264,646
FINANCING				
Proceeds from issuance of shares, net of issue costs	3,084,668	-	21,386,409	455,900
Deferred finance costs	-	(1,399,799)	-	(1,399,799)
Changes in non-cash working capital (Note 8(a))	-	1,280,119	(650,899)	1,309,219
Cash flows from financing activities	3,084,668	(119,680)	20,735,510	365,320
INVESTING				
Exploration and development expenditures	(6,643,351)	(3,622,198)	(13,959,449)	(8,700,342)
Purchase of equipment	(47,761)	(107,819)	(121,970)	(480,453)
Changes in non-cash working capital (Note 8(a))	(780,235)	2,223,702	(1,770,723)	3,103,843
Cash flows used in investing activities	(7,471,347)	(1,506,315)	(15,852,142)	(6,076,952)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,698,026)	(2,869,152)	4,599,098	(4,446,986)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,491,713	12,119,172	13,194,589	13,697,006
CASH AND CASH EQUIVALENTS, END OF PERIOD	17,793,687	9,250,020	17,793,687	9,250,020

See accompanying notes to the interim consolidated financial statements

1. Basis of Presentation

Caza Oil & Gas, Inc. (“Caza” or the “Company”) was incorporated under the laws of British Columbia on June 9, 2006 for the purposes of acquiring shares of Caza Petroleum, Inc. (“Caza Petroleum”). The Company and its subsidiaries are engaged in the exploration for and the development, production and acquisition of, petroleum and natural gas reserves. The Company’s shares are listed for trading on the TSX and AIM stock exchanges.

The interim unaudited consolidated financial statements of Caza have been prepared by management, in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The interim consolidated financial statements have, in management’s opinion, been properly prepared using careful judgment with reasonable limits of materiality. These interim consolidated financial statements do not include all the note disclosures required for annual financial statements and therefore they should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2007. The interim consolidated financial statements have been prepared following the same significant accounting policies as the most recently reported audited consolidated financial statements of Caza except as disclosed in Note 2.

Caza’s reporting and measurement currency is the United States (“US”) dollar as the majority of its transactions are denominated in this currency.

2. Changes in Significant Accounting Policies

The Canadian Institute of Chartered Accountants (“CICA”) issued the following new Handbook Sections, which were effective for interim periods beginning on or after January 1, 2008.

- (a) Section 3862, “Financial Instruments – Disclosures”, describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, “Financial Instruments – Presentation” replaced Section 3861, “Financial Instruments – Disclosure and Presentation”. The adoption of this section did not have a material impact on the Company’s financial position, results of operations and cash flows.
- (b) Section 3863, “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of this section did not have a material impact on the Company’s financial position, results of operations and cash flows.
- (c) Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance. The adoption of this section did not have a material impact on the Company’s financial position, results of operations and cash flows.

2. Changes in Significant Accounting Policies - continued

- (d) The CICA has amended Section 1400, “General Standards of Financial Statement Presentation”, which is effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Company’s ability to continue as a going

concern. The adoption of this new section did not have an impact on the consolidated financial statements.

(e) In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company:

- As of January 1, 2009, Caza will be required to adopt CICA Handbook Section 3064 Goodwill and Intangible Assets which replaces CICA Handbook Sections 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The adoption is not expected to have a material impact on its consolidated financial statements.
- The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. Caza is currently evaluating the impact of adopting IFRS.

3. Petroleum and Equipment

	September 30, 2008			December 31, 2007		
	Cost	Accumulated depletion and depreciation	Net Book Value	Cost	Accumulated depletion and depreciation	Net Book Value
Petroleum and natural gas properties and equipment	\$35,408,478	\$2,101,109	\$33,307,369	\$21,088,518	\$1,200,899	\$19,887,619
Office equipment and furniture	\$718,523	\$221,916	\$496,607	\$596,554	\$130,547	\$466,007
	\$36,127,001	\$2,323,025	\$33,803,976	\$21,685,072	\$1,331,446	\$20,353,626

At September 30, 2008 the cost of petroleum and natural gas properties includes \$20,019,239 (December 31, 2007 - \$8,132,952) relating to unproven properties which have been excluded from costs subject to depletion and depreciation. No events or circumstances suggest that the undeveloped properties, and all associated costs are impaired at September 30, 2008. Future development costs of proved undeveloped reserves of \$13,340,875 were included in the depletion calculation.

3. Petroleum and Equipment - continued

During the three and nine month periods ended September 30, 2008, the Company has capitalized \$305,469 and \$909,416 of general and administrative expenses, respectively (three and nine month periods ended September 30, 2007- \$388,072 and \$1,003,052) relating to exploration and development activities of which \$49,276 and \$166,865 related to stock based compensation for the respective three and nine month periods ended September 30, 2008.

4. Asset Retirement Obligations

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	September 30, 2008	December 31, 2007
Asset retirement obligation, beginning of period	\$ 286,019	\$ 55,706
Obligations incurred	193,220	89,479
Accretion expense	10,696	3,343
Obligations settled	(9,767)	-
Change in estimates	-	137,491
Asset retirement obligation, end of period	\$ 480,168	\$ 286,019

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$728,372 (December 31, 2007 - \$397,700). The obligation was calculated using a credit-adjusted risk free discount rate of 6 percent and an inflation rate of 3 percent. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2010 and 2041.

5. Share Capital

- (a) Authorized
Unlimited number of voting common shares.
-

5. Share Capital - continued

(b) Issued

	September 30, 2008		December 31, 2007	
	Shares	Amounts	Shares	Amounts
Opening balance common shares	69,319,000	\$ 25,037,117	44,030,000	\$ 13,478,258
2 nd Over-allotment closing)	-	-	970,000	344,699
Exercise of exchangeable rights	-	-	1,498,000	51,921
Entitlement shares	-	-	3,442,000	-
Entitlement shares	-	-	558,000	-
IPO shares	-	-	18,821,000	11,162,239
Private placement (i)	43,290,392	18,301,741	-	-
Private placement (iii)	6,709,608	3,084,668	-	-
Balance end of period	119,319,000	\$ 46,423,526	69,319,000	\$ 25,037,117
Opening balance exchangeable rights	26,502,000	918,571	28,000,000	970,492
Rights exercised March 8, 2007	-	-	(1,103,200)	(38,237)
Rights exercised April 20, 2007	-	-	(394,800)	(13,684)
Balance end of period	26,502,000	918,571	26,502,000	918,571
Opening balance warrants	25,100,000	4,855,100	21,856,800	4,474,399
2 nd Over-allotment warrants	-	-	485,000	104,275
2 nd Over-allotment broker warrants	-	-	58,200	6,926
Entitlement warrants September 22, 2007	-	-	1,721,000	-
Entitlement warrants November 21, 2007	-	-	279,000	-
IPO broker warrants	-	-	700,000	269,500
Expired broker warrants March 22, 2008 (Note 5 (c))	(2,400,000)	(285,600)	-	-
Surrendered warrants May 21, 2008 (ii)	(2,200,000)	(430,000)	-	-
Balance end of period (iv)	20,500,000	4,139,500	25,100,000	4,855,100
		\$ 51,481,597		\$ 30,810,788

- (i) In June 2008, the Company completed a 43,290,392 common share private placement at \$0.46 (23 pence per common share). Pursuant to the private placement, the Company incurred \$1,478,544 of share issue costs.
- (ii) On May 21, 2008 2,200,000 warrants were surrendered.
- (iii) In July 2008, the Company completed a 6,709,608 common share private placement at \$0.46 (23 pence per common share).
- (iv) The weighted average life of the warrants is 1.98 years (December 2007 – 2.75 years) and the weighted average exercise price is \$0.99 (December 2007 - \$1.05).

(c) Broker warrants

The following table summarizes the broker warrants outstanding as at September 30, 2008 and December 31, 2007 and changes during the respective periods ended on those dates is presented below. In connection with initial public offering completed on December 12, 2007, Caza issued 700,000 broker warrants to the selling agents as partial consideration for their services. Each broker warrant entitles the holder to purchase one common share at a price of CDN \$0.80 per share, approximately \$0.79 per share, until December 12, 2009.

5. Share Capital - continued

Broker Warrants	September 30, 2008		December 31, 2007	
	Number of warrants	Weighted average Exercise	Number of warrants	Weighted average exercise

		price		price
Beginning of period	3,100,000	\$0.57	2,341,800	\$0.50
Granted	-	-	758,200	\$0.77
Exercised	-	-	-	-
Expired	(2,400,000)	\$0.50	-	-
End of period	700,000	\$0.79	3,100,000	\$0.57

(d) Stock options

The maximum number of common shares for which options may be granted, together with shares issuable under any other share compensation arrangement of the Company, is limited to 10% of the total number of outstanding common shares at the time of grant of any option. The exercise price of each option may not be less than the fair market value of the Company's common shares on the date of grant. Except as otherwise determined by the Board and subject to the limitation that the stock options may not be exercised later than the expiry date provided in the relevant option agreement but in no event later than 10 years (or such shorter period required by a stock exchange) from their date of grant, options cease to be exercisable: (i) immediately upon a participant's termination by the Company for cause, (ii) 90 days (30 days in the case of a participant engaged in investor relations activities) after a participant's termination from the Company for any other reason except death and (iii) one year after a participant's death. Subject to the Board's sole discretion in modifying the vesting of stock options, stock options will vest, and become exercisable, as to 33 $\frac{1}{3}$ % on the first anniversary of the date of grant and 33 $\frac{1}{3}$ % on each subsequent anniversary of the date of grant. All options granted to a participant but not yet vested will vest immediately upon a change of control or upon the Company's termination of a participant's employment without cause. A summary of the Company's stock option plan as at September 30, 2008 and December 31, 2007 and changes during the respective periods ended on those dates is presented below.

Stock Options	September 30, 2008		December 31, 2007	
	Number of options	Weighted average Exercise price	Number of options	Weighted average exercise price
Beginning of period	6,605,000	\$0.62	-	-
Granted	980,000	0.50	6,605,000	\$0.62
Exercised	-	-	-	-
Forfeited	(1,000,000)	0.59	-	-
End of period	6,585,000	\$0.60	6,605,000	\$0.62
Exercisable, end of period	2,163,333	\$0.51	1,108,333	\$0.50

5. Share Capital - continued

Date of Grant	Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable September 30, 2008
January 31, 2007	3,025,000	0.50	8.34	January 31, 2017	2,016,667
May 10, 2007	220,000	0.50	8.59	May 10, 2017	73,333
June 11, 2007	20,000	0.50	8.70	June 11, 2017	6,667
December 12, 2007	2,340,000	0.79	9.20	December 12, 2017	66,666
April 7, 2008	500,000	0.59	9.52	April 7, 2018	-
August 11, 2008	480,000	0.41	9.86	August 11, 2018	-
	6,585,000		8.86		2,163,333

On April 7, 2008, 500,000 options were granted at a fair value of \$0.34 per option and on August 11, 2008 480,000 options were granted at a fair value of \$0.24 per option. The fair value of these options were determined using the same assumptions as disclosed in December 31, 2007 annual financial statements.

(e) Escrowed securities

In accordance with the policies of the TSX, a total of 20,457,500 common shares owned by management were held pursuant to escrow agreements. In addition 25,200,000 common shares owned by non-management parties have been held pursuant to the escrow agreements. During the three month period ended June 30, 2008, 6,814,500 management shares and 8,400,000 non-management shares were released from escrow resulting in 13,643,000 management shares and 16,800,000 non-management shares subject to the aforementioned escrow provisions at June 30, 2008. No escrowed securities were released during the three month period ended September 30, 2008. One-half of the escrowed shares remaining in escrow are to be released twelve months after the date of listing on the TSX. All remaining shares then remaining in escrow will be released eighteen months after the date of listing on the TSX.

(f) Contributed surplus

The following table presents the changes in contributed surplus:

	September 30, 2008	December 31, 2007
Balance, beginning of period	\$ 2,787,434	\$ 2,250,000
Expired broker warrants	285,600	-
Surrendered warrants (Note 5(b)(ii))	430,000	-
Stock based compensation (i)	568,306	537,434
Balance, end of period	\$ 4,071,340	\$ 2,787,434

(i) For the three and nine month periods ended September 30, 2008, \$149,215 and \$401,441 of stock based compensation expense was recognized in the statement of net loss (2007 - \$64,175 and \$304,278) and \$49,276 and \$166,865 was capitalized during the respective three and nine month periods (2007 - \$77,092 and \$77,092).

6. Related Party Transactions

- (a) The Vice President, Exploration of Caza Petroleum, prior to becoming an employee, was a consultant to Caza Petroleum and as a consultant was eligible to receive a 2% carried working interest (subject to proportionate reduction based on the Company's working interest) to casing point in the initial test well in certain prospects. The applicable prospects are the Bongo, Puku, Eland and Sable properties. As a result of these carried working interests, the officer of Caza Petroleum has working interests in certain of these properties and as at September 30, 2008, \$27,010 of joint venture receivables are owed to the Company. Since becoming an employee this individual is no longer eligible to participate for additional interests beyond those described.
- (b) In February 2008, Caza Petroleum entered into a farmout agreement with Singular Oil & Gas Sands, LLC ("Singular") to participate in the drilling of the Jonell Cerny well in Wharton County, Texas. Under the terms of that agreement, Singular paid 13.33% of the drilling costs through completion of the Jonell Cerny well to earn a 10.00% interest in the property thereafter. This participation was in the normal course of Caza's business and on the same terms and conditions to those of other joint venture partners. Singular owes the Company \$106,733 in joint venture partner receivables as at September 30, 2008. Singular is a related party as it is a company under common control with Zoneplan Limited, which is a significant shareholder of Caza.

All related party transactions are in the normal course of operations and have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties and which is comparable to those negotiated with third parties.

7. Commitments and Contingencies

- (a) As of September 30, 2008, the Company is committed under operating leases for its offices and corporate apartment. The Company is committed to the following aggregate minimum lease payments which are shown below:

2008	\$	60,038
2009	\$	233,660

- (b) The Company received a total of \$2,564,962 in 2004, 2005 and 2006 under an agreement whereby the funds received are only repayable from production from three wells on the Aldwell Ranch project at a rate of 47.281% of the revenues until repayment of the project financing and 40.787% of the revenues thereafter. The repayment obligation ceases upon ninety percent (90%) of the then current estimated recoverable reserves being produced. This has been accounted for as a net profits interest and has reduced the carrying amount of the full cost center.
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8. Supplementary Information

(a) net change in non-cash working capital

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Provided by (used in)				
Accounts receivable	\$ 634,566	\$ 200,161	\$ 164,150	\$ (2,030,673)
Prepaid and other	88,463	126,667	248,411	30,324
Accounts payable and accrued liabilities	26,481	2,742,050	(1,601,198)	8,790,635
	\$ 749,510	\$ 3,068,878	\$ (1,188,637)	\$ 6,790,286
Summary of changes				
Operating	\$ 1,529,745	\$ (434,943)	\$ 1,232,985	\$ 2,377,224
Financing	-	1,280,119	(650,899)	1,309,219
Investing	(780,235)	2,223,702	(1,770,723)	3,103,843
	\$ 749,510	\$ 3,068,878	\$ (1,188,637)	\$ 6,790,286

(b) supplementary cash flow information

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest paid	\$ 6,198	\$ 33,447	\$ 10,144	\$ 33,447
Interest received	132,295	113,176	277,208	392,591
Taxes paid	12,891	-	16,046	-

(c) cash and cash equivalents

As at	September 30, 2008	December 31, 2007
Cash on deposit (net of outstanding checks)	\$ (472,237)	\$ 4,237,394
Money market instruments	18,265,924	8,957,195
Cash and cash equivalents	\$ 17,793,687	\$ 13,194,589

The money market instruments bear interest at a rate of 2.79% as at September 30, 2008 (December 31, 2007 – 4.82%). Cash on deposit is held with Wells Fargo Bank Texas and the money market account is a fund managed by Wells Fargo Brokerage Services, LLC investing in Treasury Bill securities.

9. Capital Risk Management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company defines capital as shareholder equity, working capital and credit facilities when available. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity and working capital to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. There have been no changes from the previous period.

<i>As at</i>	<i>September 30, 2008</i>	<i>December 31, 2007</i>
Cash and cash equivalents	\$ 17,793,687	\$ 13,194,589
Other current assets	3,192,588	3,605,149
Accounts payable and accrued liabilities	(5,275,477)	(6,876,645)
Net working capital	\$ 15,710,798	\$ 9,923,093
Shareholders' Equity	\$ 49,034,636	\$ 30,416,782

The Company has evaluated its net working capital balance as at September 30, 2008. Due to long lead times on several of the Company's exploration and development projects, from time to time the Company secures capital to fund its investments in oil and gas exploration projects in advance which has resulted in a net working capital balance. As exploration and development projects progress the Company expects the net working capital balance to significantly decrease from current levels, and additional capital may be required to fund additional projects. If the Company is unsuccessful in raising additional capital the Company may have to sell, farm out, be unable to participate with joint venture partners or forfeit rights to some of its properties.

10. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to commodity price, credit, and foreign exchange risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Commodity price risk

The Company is subject to commodity price risk for the sale of natural gas. The Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of natural gas and natural gas liquids commodity prices. To date the Company has not entered into any forward commodity contracts.

10. Financial Instruments - continued

(b) Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A majority of the Company's financial assets at the balance sheet date arise from natural gas liquids and natural gas sales and the Company's accounts receivable that are with these customers and joint venture participants in the oil and natural gas industry. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company's natural gas and condensate production is sold to large marketing companies. Typically, the Company's maximum credit exposure to customers is revenue from two months of sales. During the period the ended September 30, 2008, the Company sold 97.76% (September 30, 2007 – 93.96%) of its natural gas and condensates to a single purchaser. These sales were conducted on transaction terms that are typical for the sale of natural gas and condensates in the United States. In addition, when joint operations are conducted on behalf of a joint venture partner relating to capital expenditures, costs of such operations are paid for in advance to the Company by way of a cash call by the partner of the operation being conducted.

Caza management assesses quarterly if there should be any impairment of the financial assets of the Company. At September 30, 2008, the Company had overdue accounts receivable from certain joint interest partners of \$347,996 which were outstanding for greater than 60 days and \$706,956 that were outstanding for greater than 90 days. During the three month period ended September 30, 2008, there was no impairment required on any of the financial assets of the Company. At September 30, 2008, the Company's two largest joint venture partners both represented approximately 13% of the Company's receivable balance respectively (December 31, 2007 26% and 11% respectively). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of cash and cash equivalents and accounts receivable.

(c) Foreign Currency Exchange Risk

The Company is exposed to foreign currency exchange fluctuations, as certain general and administrative expenses are or will be denominated in Canadian dollars and United Kingdom pounds sterling. The Company's sales of oil and natural gas are all transacted in US dollars. At September 30, 2008, the Company considers this risk to be relatively limited and not material; therefore it does not hedge its foreign exchange risk.

(d) Fair Value of Financial Instruments

The Company has determined that the fair values of the financial instruments consisting of cash and cash equivalents, accounts receivable and accounts payable are not materially different from the carrying values of such instruments reported on the balance sheet due to their short-term nature.

All financial assets except for cash and cash equivalents which are classified as held for trading, are classified as either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There are no financial assets on the balance sheet that have been designated as available-for-sale. There have been no changes to the aforementioned classifications in the respective three and nine month periods ended September 30, 2008.

10. Financial Instruments - continued

(e) Liquidity Risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses. The financial liabilities as at September 30, 2008 that are subject to liquidity risk are accounts payable and accrued liabilities. The contractual maturity of these financial liabilities is generally the following sixty days from the receipt of the invoices for goods of services and can be up to the following next six months. Management believes that the Company's current working capital will be adequate to support these financial liabilities.
