

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") is dated March 23, 2010 and should be read in conjunction with the consolidated financial statements and accompanying notes of Caza Oil & Gas, Inc. ("Caza" or the "Company") as at and for the years ended December 31, 2009 and 2008. Additional information relating to the Company, including its Annual Information Form for the year ended December 31, 2009 ("AIF"), can be found on SEDAR at www.sedar.com. All figures herein have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in US Dollars unless otherwise stated.

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") and are not historical facts. Forward-looking statements, 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 2010. 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 may 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, the risks described under the heading "Risks and Uncertainties" herein 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 those forecasted. 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 Canadian 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 costs 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 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 Boes and Mcfes

Per barrel oil equivalent amounts (“boe”) and one thousand cubic feet of gas equivalent (“Mcf”) amounts may be misleading, particularly if used in isolation. A boe conversion of 6 thousand cubic feet (“Mcf”) of natural gas to 1 barrel (“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 to U.S. dollars and references to “CDN\$” are to Canadian dollars.

Select Annual Information

	2009	2008	2007
Financial			
Revenue oil & gas	2,456,662	3,351,890	1,380,133
Funds flow from (used in) operations ⁽¹⁾	(543,025)	(2,564,172)	(1,539,730)
Per share – basic and diluted	(0.00)	(0.02)	(0.02)
Net loss	(3,720,802)	(5,086,686)	(1,777,571)
Per share – basic and diluted	(0.03)	(0.04)	(0.02)
Capital expenditures	1,892,560	17,933,286	12,228,426
Total assets	49,721,769	54,778,318	37,579,446
Cash and working capital	8,376,463	10,812,048	9,923,093
Common shares outstanding, end of year ⁽²⁾	145,821,000	145,821,000	95,821,000
Operations			
Operating netback (\$/Mcf)			
Revenue oil & gas	5.11	8.96	6.68
Severance tax	0.47	0.77	0.61
Production expenses	1.41	1.29	1.63
Operating netback	3.23	6.90	4.44
Average daily gas production (Mcf/day)	1,316	1,025	566

(1) Calculated based on cash flow from operating activities before changes in non-cash working capital. See discussion on non GAAP measures above.

(2) Basic share amounts are calculated based on the number of outstanding common shares plus the number of common shares issuable pursuant to a share exchange and shareholders agreement (such exchangeable rights are referred to as the “Exchangeable rights”) among Caza and members of Caza’s senior management.

(3) Calculated by deducting royalties and operating costs from revenues. See discussion on Non-GAAP Measures.

Highlights

- Natural gas, natural gas liquids and crude oil production increased by 28% from 2008 to 2009, averaging 1,316 Mcfe per day ("Mcf/d") in 2009 (includes associated condensate production). The Company brought on 7 wells late in 2008 that have produced a full year throughout 2009, and brought on line 2 additional wells in New Mexico during 2009.
- Activity in 2009 focused on operations in New Mexico under the participation agreement with Endeavour International Corporation ("Endeavour").
- Operating netbacks decreased by 53 percent from 2008 to 2009 to \$3.23 per Mcfe in 2009, reflecting the decreases in natural gas, gas liquids and crude oil production prices.
- Company focused on its oil exploration projects in response to low gas prices.
- Revenues from oil sales increased to \$1.04m from \$203,000.
- Cash burn reduced and preserved through farm out arrangements and cost savings.

Operating Netback Summary (Non-GAAP)

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

(on a Mcfe basis)	Three Months ended December 31,		Twelve Months ended December 31,	
	2009	2008	2009	2008
Oil and natural gas revenue	\$ 6.09	\$ 6.26	\$ 5.11	\$ 8.96
Production expense	(1.61)	(2.71)	(1.41)	(1.29)
Severance expense	(0.40)	(0.44)	(0.36)	(0.63)
Transportation expense	(0.06)	(0.12)	(0.11)	(0.14)
Operating netback (non-GAAP)	4.02	2.99	3.23	6.90

The change in netbacks for the twelve months ended December 31, 2009 occurred as a result of a decrease in the price received on a per \$/Mcf basis decreasing by \$3.85 from the previous year. Production costs on a per \$/Mcf basis increased by \$0.12. There was a decrease in severance and transportation of \$0.30 per Mcfe as a result of a 27% decrease revenue as compared to the previous year.

FINANCIAL AND OPERATING RESULTS

Petroleum and Production Revenue

	Three Months ended		Twelve Months ended	
	December 31, 2009	2008	December 31, 2009	2008
Natural gas				
Production (Mcf)	99,512	83,491	362,546	341,146
Revenue (\$)	428,231	481,335	1,362,504	2,964,355
Price (\$/Mcf)	4.30	5.77	3.76	8.69
Light/medium crude oil				
Production (bbls)	4,766	2,430	18,421	3,132
Revenue (\$/bbl)	345,361	121,078	1,034,840	203,207
Price (\$/bbl)	72.46	49.83	56.18	64.88
Natural gas liquids				
Production (bbls)	206	976	1,218	2,337
Revenue (\$/bbl)	14,279	47,774	59,318	184,328
Price (\$/bbl)	69.22	48.93	48.71	78.87
Combined				
Production (Mcf)	129,348	103,928	480,380	373,962
Revenue (\$)	787,869	650,187	2,456,662	3,351,890
Price (\$/Mcf)	6.09	6.26	5.11	8.96
Mcf/d	1,406	1,130	1,316	1,025
Boe/d	234	188	219	171

For the Company, revenues from oil and gas sales decreased by 27% to \$2,456,662 in 2009 down from \$3,351,890 in 2008. The average sales price decreased by 43% in 2009 to an average price of \$5.11 per Mcfe.

Average daily production increased by 28% to 1,316 Mcfe/d in 2009 from 1,025 Mcfe/d in 2008. The increase was mainly due to the 7 wells drilled and brought on production during the latter half of 2008 and 2 wells drilled and completed in New Mexico in 2009. Gas production makes up 75% of Caza's production with natural gas liquids and crude oil comprising the remaining 25%.

Natural gas, natural gas liquids and crude oil revenues increased 21% to \$787,869 for the three-month period ended December 31, 2009 from \$650,187 for the three-month period ended December 31, 2008. Caza's production volumes increased 24% to 129,348 Mcfe for the three-month period ended December 31, 2009 up from 103,928 Mcfe for the comparative period. This represents an average daily production rate increase of 24% for the three-months period ended December 31, 2009 as compared to the comparative period. The average natural gas price received by Caza decreased 3% to \$6.09 per Mcfe during the three-month period ended December 31, 2009 from \$6.26 per Mcfe during the comparative period. The increase in revenues and production volumes for the three-month period ended December 31, 2009 is a result of wells drilled in 2008 that were brought on line in 2009. Our future revenue and production volumes will be directly affected by North American natural gas prices, West Texas Intermediate crude oil prices, the performance of existing wells, 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 December 31,		Twelve Months ended December 31,	
	2009	2008	2009	2008
Severance tax (\$)	52,335	45,319	171,768	236,176
Transportation (\$)	8,256	12,965	54,119	50,637
Production (\$)	208,693	281,800	676,643	481,563
Severance, transportation and production (\$)	269,284	340,084	902,530	768,376
Severance, transportation and production (\$/Mcf)	2.08	3.27	1.88	2.05

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 decreases in severance taxes are a result of the decreases in commodity prices in 2009 as compared to the respective periods in 2008.

During the year ended December 31, 2009, Caza incurred production expenses of \$676,643 or an average per Mcfe of \$1.41. During the year ended December 31, 2008, Caza's production expenses were \$481,563 or an average per Mcfe of \$1.29. Production expenses on a per Mcfe basis have increased as a result of increased production from additional wells brought on during 2009 and wells drilled during 2008 brought on in early 2009 that have higher operating costs.

Severance taxes and transportation expenses were \$225,887 during the year and are included in production expense. This is a decrease of 21% from the prior year's severance taxes. The decrease is primarily due to the decrease in commodity prices during the period.

Severance taxes and transportation expenses totaled \$60,591 (\$0.47/Mcfe) for the three-month period ended December 31, 2009, as compared to \$58,284 (\$0.56/Mcfe) in the comparative period. Severance taxes and the transportation expense increased 4% as a result of increases in production volumes from the comparative period.

Production expenses for the three-month period ended December 31, 2009 were \$208,693 compared to \$281,800 for the comparative period. Caza's average lifting cost for the three-month period ended December 31, 2009 was \$2.07 per Mcfe versus \$3.27 per Mcfe for the comparative period. The primary decrease in per unit production expense was attributable to non-recurring work over expenses that occurred during the comparative period.

Depletion, Depreciation, Amortization and Accretion

Depletion, depreciation, amortization and accretion expense for the three-month period ended December 31, 2009 increased to \$799,601 (\$6.18/Mcfe) from \$617,477 (\$5.94/Mcfe) in the comparative period. Depletion, depreciation and accretion expense increased to \$2,824,799 (\$5.88 per Mcfe) in 2009 from \$1,619,327 (\$4.33 per Mcfe) in 2008.

	Three Months ended December 31,		Twelve Months ended December 31,	
	2009	2008	2009	2008
Depletion and depreciation (\$)	793,447	613,911	2,800,183	1,605,064
Accretion (\$)	6,154	3,566	24,616	14,263
Depletion, depreciation and accretion (\$)	799,601	617,477	2,824,799	1,619,327
Depletion, depreciation and accretion (\$/Mcf)	6.18	5.94	5.88	4.33

The increased depletion expense resulted from additional drilling costs associated with the drilling of 7 gross (2.89 net) wells late in the third quarter and completed in the fourth quarter of 2008 and the drilling of 2 gross (0.25 net) additional wells during 2009.

Costs of unproved properties of \$11,662,047 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		Twelve Months ended	
	December 31, 2009	2008	December 31, 2009	2008
General and administrative (\$)	1,350,800	1,461,253	4,529,831	6,067,327
Joint venture partner reimbursements (\$)	(709,623)	-	(1,894,300)	-
General and administrative recovery (\$)	(77,595)	(18,099)	(186,979)	(167,020)
Net general and administrative (\$)	563,582	1,443,154	2,448,553	5,900,307
General and administrative (\$/Mcf)	10.44	14.06	9.43	16.22
Net general and administrative (\$/Mcf)	4.36	13.89	5.10	15.78

General and administrative expenses for 2009 decreased to \$2,448,553 from \$5,900,307 for 2008. On a Mcfe basis the net general and administrative expenses decreased 68% and 69% for the respective three-month period and year ended December 31, 2009.

During 2009, Caza capitalized general and administrative expenses relating to exploration and development activities of \$317,409. Stock-based compensation totaled \$515,314 in 2009 from stock option grants, of which \$162,337 was capitalized relating to exploration and development activities. Stock-based compensation expense in the amount of \$104,365 (2008- \$85,432) is included in general and administrative expenses for the three-month period ended December 31, 2009 and \$352,978 (2008 - \$486,873) for the year ended December 31, 2009. Caza recorded a decrease of \$114,597 for the three-month period ending December 31, 2009 and \$196,875 for the year ended December 31, 2009 relating to forfeited stock options. Excluding stock-based compensation expense, general and administrative expenses decreased to \$2,095,575 from \$5,413,434 in 2008. Under certain joint venture agreements Caza received reimbursements of general and administrative expenses.

Income Taxes

Presently the Company does not expect to pay current taxes in the foreseeable future based on existing tax pools, planned capital activities 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 third quarter of 2008, 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 January 1, 2010 with respect to the Company's operations are as follows:

Expiring at December 31,	Amounts	
	US	CDN
2026	1,484,777	107,453
2027	11,146,427	816,399
2028	16,409,534	721,574
2029	1,381,022	1,011,246

Net loss

Net loss in 2009 decreased by 27% percent to \$3,720,802 (\$0.03 per share, basic and diluted) compared to \$5,086,686 (\$0.04 per share, basic and diluted) in 2008. Caza incurred a net loss of \$849,252 for the three-month period ended December 31, 2009 and as compared to a net loss of \$1,749,825 during the comparative period. The change was due to a program of cost reductions and reimbursements of general and administrative costs from certain joint venture agreements.

Investments

Interest income for the three-month period ended December 31, 2009 was \$184 and \$3,258 for the year ended December 31, 2009, a reduction from \$285,367 during the year ended December 31, 2008. Interest was earned 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 commercial paper.

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

The following table reconciles the non-GAAP financial measures “funds flow from operations” to, “net loss”, the most comparable measure calculated in accordance with GAAP. Funds from operations before changes in working capital provides better information as it ignores timing differences resulting primarily from fluctuations in payables and receivables. As such it is a common measure used by management in our industry.

(\$)	Three Months ended December 31,		Twelve Months ended December 31,	
	2009	2008	2009	2008
Net loss	(849,252)	(1,749,825)	(3,720,802)	(5,086,686)
Depletion, depreciation, amortization and accretion	799,600	617,476	2,824,799	1,619,327
Stock-based compensation	(10,235)	85,434	352,978	486,873
Asset retirement obligations settled	-	-	-	(9,767)
Future income tax expense (recovery)	-	-	-	426,081
Funds flow used in operations	(59,887)	(1,046,915)	(543,025)	(2,564,172)
Funds flow loss per share – basic and diluted	(0.00)	(0.01)	(0.00)	(0.02)

The decrease in funds flow used in operations is associated with reimbursements of general and administrative expenses received from certain joint venture agreements during 2009.

Capital Expenditures

By Type (\$)	Three Months ended December 31,		Twelve Months ended December 31,	
	2009	2008	2009	2008
Drilling and completions	22,876	1,208,293	173,641	11,048,460
Seismic	813	(28,983)	20,239	137,331
Facilities and lease equipment	(5,326)	1,510,518	225,439	2,948,741
Office furnishings and equipment	4,222	-	11,686	121,969
Leasehold geological /geophysical	232,098	1,631,708	1,155,048	3,587,445
Other costs (recovery)	163,598	(469,669)	306,507	89,341
Total	418,281	3,851,867	1,892,560	17,933,286

During the year ended December 31, 2009, drilling activities were concentrated in the Wolfcamp play in New Mexico. During the final quarter of 2009 and start of 2010 Caza drilled 4 gross wells (0.5 net) under a participation agreement with Endeavour International Corporation (“Endeavour”). Two wells were completed in the period and 2 are currently undergoing evaluation.

Outstanding Share Data

Caza is authorized to issue an unlimited number of common shares without par value. At March 23, 2010 119,319,000 common shares were issued and outstanding. In addition, the management team has the right at any time to exchange their Caza Petroleum, Inc. (“Caza Petroleum”) shares currently held by them for an aggregate of 26,502,000 common shares based on an exchange ratio of 2,800 common shares for each Caza Petroleum Share held, subject to adjustment in certain events.

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 stock options	<u>5,371,667</u>
Total Common Shares issued and issuable	<u>170,992,667</u>
Warrants Issued and Outstanding	
Warrants to purchase common shares outstanding	19,800,000
Stock Options Issued	
Management stock options outstanding	5,371,667

Commitments

The following is a summary of the estimated amounts required to fulfill Caza's remaining contractual commitments as at December 31, 2009:

Type of Obligation (\$)	Total	<1 Year	1-3 Years	4-5 Years	Thereafter
Operating leases	536,566	239,482	297,084	-	-
Asset retirement obligations	795,234	11,714	94,195	103,073	586,252
Total contractual commitments	1,331,800	251,196	391,279	103,073	598,252

Liquidity and Capital Resources

At December 31, 2009, Caza had a working capital surplus of \$8,376,463 as compared to \$8,854,631 as at September 30, 2009 and \$10,812,048 as at December 31, 2008. This decrease in working capital from December 31, 2008 resulted primarily from capital expenditures of \$1,892,560 in drilling and lease acquisition activities and \$543,025 in funds flow used in operations. The Company is evaluating drilling additional wells in the Wharton West field and an initial test well on its Bongo prospect. Caza had a cash balance of \$9,268,547 as of December 31, 2009 and had no bank credit facilities drawn or in place.

On April 8, 2009, the Company entered into a participation agreement with Endeavour to participate in a jointly established exploration and development program in the United States. As stated above, 4 (gross) wells were drilled under the participation agreement. Whilst the results of the wells were disappointing, the Endeavour arrangements afforded the Company significant downside protection and preserved the Company's cash reserves. Endeavour funded the acquisition, exploration and appraisal activity attributable to Caza's interest in the 4 wells. On January 20, 2010 Endeavour served notice on Caza Petroleum, Inc. that will terminate the agreement on April 8, 2010, the first anniversary of the agreement. Post Endeavour Caza will consider using four sources of funding, in addition to its existing cash reserves, to finance its capital expenditures program; internally generated cash flow from operations, the sale or farmout of properties, where appropriate and if available bank debt and new equity issues.

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, because of the Company's cash reserves management anticipates that the Company will have adequate liquidity to fund its funds flow deficiency and budgeted capital expenditures for the next 12 months. The Company may choose to reduce budgeted capital expenditures and has employed reductions in general and administrative costs. The Company is continuing to monitor its 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

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

(\$, unless otherwise indicated)	Three months ended December 31, 2009	Three months ended September 30, 2009	Three months ended June 30, 2009	Three months ended March 31, 2009
Petroleum and natural gas sales	787,869	553,793	561,083	553,916
Net income (loss)	(849,252)	(553,423)	(982,247)	(1,335,880)
Per share – basic and diluted	(0.00)	(0.00)	(0.01)	(0.01)
Funds flow from operations (non-GAAP) ⁽¹⁾	(59,887)	157,545	(117,808)	(522,877)
Per share – basic and diluted	(0.00)	0.00	(0.00)	(0.00)
Net capital expenditures (recovery)	418,281	361,311	(202,139)	1,315,105
Average daily production (mcf/d)	1,406	1,261	1,338	1,258
Weighted average shares outstanding	145,821,000	145,821,000	145,821,000	145,821,000

(\$, unless otherwise indicated)	Three months ended December 31, 2008	Three months ended September 30, 2008	Three months ended June 30, 2008	Three months ended March 31, 2008
Petroleum and natural gas sales	650,186	905,055	1,067,364	729,284
Net income (loss)	(1,749,825)	(2,164,475)	(536,701)	(635,685)
Per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Funds flow from(used in) operations (non-GAAP) ⁽¹⁾	(1,046,915)	(841,092)	(326,850)	(349,312)
Per share – basic and diluted	(0.00)	(0.01)	(0.00)	(0.00)
Net capital expenditures	3,851,867	6,691,112	3,237,140	4,153,166
Average daily production (mcf/d)	1,130	994	1,005	957
Weighted average shares outstanding	145,821,000	145,675,139	97,723,874	95,821,000

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

Factors that have caused variations over the quarters:

- The Company drilled 16 gross (5.28 net) wells in Texas, New Mexico and Louisiana during 2008 and 2009 of which 13 gross (4.38 net) wells were completed. Two wells are waiting further evaluation.
- Caza paid for its proportionate share of leasehold related costs in the following prospects: Bada Bing, Moore Cap 1, Moore Cap 2 and Sombrero in Southeast New Mexico; Bongo, Grierson Springs, Las Animas, Soledad Creek and Windham Wolfberry in Texas; and Thunder Stud in Louisiana.

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.

Commodity price risk

The Company is subject to commodity price risk for the sale of natural gas and other hydrocarbons. 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 hydrocarbon commodity prices. To date the Company has not entered into any forward commodity contracts.

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 crude oil, 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, natural gas liquids and crude oil 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 year ended December 31, 2009, the Company sold 66% (December 31, 2008 – 90%) of its natural gas, natural gas liquids and crude oil to a single purchaser. These sales were conducted on transaction terms that are typical for the sale of natural gas, natural gas liquids and crude oil 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 December 31, 2009, the Company had overdue accounts receivable from certain joint interest partners of \$13,464 which were outstanding for greater than 60 days and \$97,150 that were outstanding for greater than 90 days. During the year ended December 31, 2009, there was no impairment required on any of the financial assets of the Company. At December 31, 2009, the Company's two largest joint venture partners represented approximately 61% and 12% of the Company's receivable balance respectively (December 31, 2008 - 21% and 15% 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.

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 December 31, 2009, the Company considers this risk to be relatively limited and not material; therefore it does not hedge its foreign exchange risk.

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 current fiscal period ended December 31, 2009.

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 December 31, 2009 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 or 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.

Critical Accounting Estimates

The policies discussed below are considered particularly important as they require management to make informed judgments, some of which may relate to matters that are inherently uncertain. The financial statements have been prepared in accordance with Canadian GAAP. In preparing financial statements, management makes certain assumptions, judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. The basis for these estimates is historical experience and various other assumptions that management believes to be reasonable. Actual results could differ from the estimates under different assumptions or conditions.

Full Cost Accounting – The Company follows the full cost method of accounting. All costs for exploration and development of reserves are capitalized in a single cost centre; the costs are then depleted on the unit of production method based on estimated proved reserves. The capitalized costs cannot exceed a ceiling amount. If the capitalized costs are determined to be in excess of this reserve based ceiling amount, the excess is written off.

Reserves – The Company engages independent qualified reserve evaluators to evaluate its reserves each year. Reserve determinations involve forecasts based on property performance, future prices, future production and the timing of expenditures; all these are subject to uncertainty. Reserve estimates have a significant impact on reported financial results as they are the basis for the calculation of depreciation and depletion. Revisions can change reported depletion and depreciation and earnings; downward revisions could result in a ceiling test write down.

Asset Retirement Obligations – The Company provides for the estimated abandonment costs using a fair value method based on cost estimates determined under current legislative requirements and industry practice. The amount of the liability is affected by the estimated cost per well, the timing of the expenditures and the discount factor used. These estimates will change and the revisions will impact future accretion, depletion and depreciation rates.

Income taxes - The utilization of future tax assets subject to an expiry date are based on estimates of future cash flows and profitability. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

Stock based Compensation – The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. This model is used to value the stock options granted. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Recent Accounting Pronouncements

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:

During 2008, the CICA's accounting Standards Board confirmed that public accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes effective for fiscal years beginning on or after January 1, 2011.

Caza has established a project plan to complete the transition to IFRS on January 1, 2011 including the preparation of comparative information for 2010. Education and training sessions have commenced for employees. Discussions and coordination with Caza's external auditors are underway and will continue throughout the balance of the year. Regular project status reporting is provided to senior management and to the Audit Committee of the Board of Directors.

The project plan consists of three phases: Phase 1 Initial Scoping; Phase 2 Detailed Assessment and Design; and Phase 3 Implementation. Caza completed the first phase in 2009, which involved a high level review of the major differences between Canadian GAAP and IFRS; a timeline for assessing resources; initial assessments of the impacts to accounting and reporting processes; information systems; business processes; external disclosures; training requirements.

The Company is currently engaged in the Detailed Assessment and Design phase and the Implementation phase of the project. Caza is assessing and preparing a comprehensive analysis of the impact of IFRS differences from Canadian GAAP identified in the initial scoping phase. In addition, an evaluation of the impact of IFRS on financial systems, internal controls over financial reporting and an analysis of IFRS 1 is underway.

The transition to IFRS requires the Company to apply IFRS 1, which prescribes requirements for preparing IFRS-compliant financial statements in the first reporting period after the changeover date (January 1, 2010). IFRS 1 includes a requirement for retrospective application of each IFRS as if they were always in effect. IFRS 1 also mandates certain exemptions for retrospective application and provides optional exemptions from retrospective application to ease the transition to IFRS in the transition year.

In July 2009, the International Accounting Standards Board ("IASB") approved amendments and released additional exemptions to IFRS 1 "Additional Exemptions for First-time Adopters" which prescribes transitional exemptions for oil and gas companies following full cost accounting. The amendment allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under the entity's previous GAAP for those assets, to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition, subject to an impairment test as prescribed under IFRS. This exemption will allow Caza to apply IFRS to its full cost pools on a prospective basis, from the date of transition to IFRS.

Significant differences that have been identified between Canadian GAAP and IFRS are: accounting for property plant & equipment ("PP&E"), including exploration costs, depletion and depreciation, impairment testing, asset retirement obligations and share-based payments. At this time, the impact on the consolidated financial statements is not reasonably determinable.

As the Company identifies and adopts IFRS policies, implementation of the necessary changes to business processes, financial systems, accounting policies, disclosure controls and procedures and internal controls over financial reporting will be executed.

Caza continues to perform the necessary research to develop and document IFRS policies by monitoring the development of standards issued by the IASB and the AcSB, as well as regulatory pronouncements issued by the Canadian Securities Administrators ("CSA"), which may affect the timing, nature or disclosure of Company's adoption of IFRS. In addition, IFRS may change prior to adoption in 2011, and the impact of these potential changes is not known. At this time, the impact of the adoption of IFRS on the Company's future financial position and results of operations is not reasonably determinable. Key information will be disclosed as it becomes available during the transition period.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the CSA, which may affect the timing, nature or disclosure of its adoption of IFRS.

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

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

Risks and Uncertainties

There are a number of risks facing participants in the oil and gas industry. Some of the risks are common to all businesses while others are specific to the sector and our Company in particular. The following reviews general and specific risks, but these may not be the only risks facing the Company.

Global Credit Crisis and Recession

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to and reductions in commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, restricted access to debt or equity financing, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted the Company's valuations and will impact the performance of the global economy going forward.

The current global credit crisis and recession has prices expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Stage of Development

An investment in the Company is subject to certain risks related to the nature of the Company's business and its early stage of development. There are numerous factors which may affect the success of the Company's business which are beyond the Company's control including local, national and international economic and political conditions. The Company's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The Company has a limited history of operations and no earnings and there can be no assurance that the Company's business will be successful or profitable or that additional commercial quantities of crude oil and natural gas will be discovered by the Company. The Company has not paid any dividends and it is unlikely to pay dividends in the immediate or foreseeable future.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. The Company's current revenues may not be sufficient to fund these activities and the Company may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financing will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

Additional Funding Requirements

The Company's cash flow may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations, and may affect the Company's ability to expend the capital required to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the Company. This may be complicated by the limited market liquidity for the shares of smaller companies, restricting access to some institutional investors. Continued uncertainty in domestic and international credit markets could also materially affect the Company's ability to access sufficient capital for its capital expenditures and acquisitions. Furthermore, if additional financing is raised through the issuance of equity, control of the Company may change and the shareholders may suffer dilution. The Company may also consider asset dispositions or farm-out or joint venture arrangements in order to fund or implement its exploration and development activities; however, there can be no assurance that the Company will be able to secure such dispositions or arrangements on acceptable terms or at all. The inability of the Company to access sufficient capital for its operations and/or to secure acceptable alternative arrangements may have a material adverse effect on the Company's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Competitive Conditions

The oil and natural gas industry is highly competitive and Caza and its subsidiaries compete with a substantial number of other companies that have greater resources. Many of these companies explore for, produce and market oil and natural gas, carry on refining operations and market the resultant products on a worldwide basis. The primary areas in which the Company and its subsidiaries encounter substantial competition are in locating and acquiring desirable leasehold acreage for drilling and development operations, locating and acquiring attractive producing oil and natural gas properties, and obtaining purchasers and transporters of the oil and natural gas they produce. Many of these competitors have financial, technical and other resources substantially greater than those of the Company. To the extent that these companies enjoy technological advantages, they may be able to implement new technologies more rapidly than Caza and its subsidiaries. There is also competition between producers of oil and natural gas and other industries producing alternative energy and fuel. The inability to acquire desirable properties, assets or service providers as a result of competition may have a material adverse effect on Caza's business, financial condition, results of operations and trading price of the common shares.

Share Price Volatility

The share price of emerging companies can be highly volatile. The price at which the common shares are traded and the price at which investors may realize their common shares will be influenced by a large number of factors, some

specific to Caza and its operations and some which may affect companies trading on exchanges generally. These factors may include the performance of the Company and its subsidiaries, large purchases or sales of the common shares, legislative changes and general economic, political or regulatory conditions. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the common shares may not reflect the underlying value of Caza. Investors may therefore realize less than, or lose all of, their investment.

Crude Oil and Natural Gas Exploration and Development

Crude oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Company and its subsidiaries will result in discoveries of crude oil, condensate or natural gas that are commercially or economically feasible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the shortages of and delays in the availability of drilling rigs and equipment, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Company's operations are subject to all the risks normally associated with the exploration, development and operation of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including encountering unexpected formations or pressures, mechanical failures, premature declines of reservoirs, environmental damage, blow outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to property of the Company and others. In accordance with customary industry practice the Company and its subsidiaries do maintain insurance coverage, but are not fully insured against all risks, nor are all such risks insurable. Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing.

Exploration, appraisal and development of crude oil and natural gas reserves is speculative and involves a significant degree of risk. Few properties that are explored are ultimately developed into new reserves. If at any stage the Company and its subsidiaries are precluded from pursuing their exploration or development program, or such program is otherwise not continued, the Company's business, financial condition and/or results of operations and, accordingly, the trading price of the common shares is likely to be materially adversely affected.

Reserves and Resources Estimates

There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves and prospective reserves and cash flows to be derived from reserves, including many factors beyond the control of the Company. The reserves, resources and cash flow information set forth in this Annual Information Form represent estimates only. The reserves, resources and estimated future net cash flows from Caza Petroleum's properties have been independently evaluated by Netherland, Sewell & Associates, Inc. ("NSAI") in the NSAI reserve report with an effective date of December 31, 2009. The Company owns 81.3% of Caza Petroleum. This evaluation includes a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of crude oil and natural gas, operating costs, abandonment and salvage values, royalties, government levies that may be imposed over the producing life of the reserves and reserves which are currently undiscovered but may be discovered at a future date. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived there from will vary from these evaluations, and such variations could be material. Due to the limited history of Caza Petroleum's producing wells, a significant portion of its reserves have not been estimated on a decline curve analysis of production, but rather on a volumetric basis which assumes certain characteristics of the reservoir.

The present value of estimated future net cash flows referred to herein should not be construed as the current market value of estimated crude oil and natural gas reserves attributable to Caza Petroleum's properties. The estimated discounted future net cash flows from reserves are based upon price and cost estimates which may vary from actual prices and costs and such variance could be material. Actual future net cash flows will also be affected by factors such as the amount and timing of actual production, supply and demand for crude oil and natural gas, curtailments or increases in consumption by purchasers and changes in governmental regulations or taxation.

Title to Properties

At the Company's development stage, its primary emphasis presently is upon acquiring oil and gas leasehold interests in its prospects and properties for purposes of assembling drilling prospects and drilling wells. Those leasehold interests may be acquired by various means, including direct acquisition from the owner of the mineral estate, farmout and farmin agreements with current holders of leasehold interests, participation and exploration agreements by which Caza or its subsidiaries join with other industry participants to share the costs of acquisition, exploration, and/or development costs, and other forms of agreement. In the case of farmout, farmin, participation and exploration agreements, a party may assume certain obligations to pay certain monies, acquire leases, drill wells, and/or share in other costs in order to acquire an interest in a given prospect or well. Pursuant to such agreements, one party may pay or otherwise bear the costs of another party as consideration for earning an interest, which is known as a "carry", or a "carried interest". In essence, the party bearing the costs in such an arrangement has a contractual right to earn an interest in the leases, equipment, and production associated with a given property. Once such leasehold interests are initially earned, depending upon the agreement, a party may relinquish or otherwise forfeit interests or the opportunity to earn additional interests in the future if the earning party fails to continue to bear its share of ongoing or future obligations associated with drilling, maintenance, and development operations.

Caza Petroleum and other subsidiaries of the Company have entered such types of agreements with respect to many of their principal prospects and properties, but not all. As to certain prospects and properties, these subsidiaries have entered multiple such agreements which may create complex earning scenarios. As a result, the subsidiaries must perform, or continue to perform, certain obligations in order to earn, or to retain, interests and/or the right to earn interests in the future. As to a number of properties and prospects, leasehold interests must be earned through the drilling and funding of oil and gas wells upon the respective lands. In addition, often parties to such agreements must make participation elections, which potentially may result in their forfeiture of interests, or alternatively, their right to acquire additional interests resulting from forfeitures by other parties. Such elections may occur more than once during the process of drilling a well. The Company's subsidiaries future performance under such agreements, coupled with the performance and elections by other parties, can cause these interests to increase or decrease over the time period during which such performance and elections must occur.

At the exploration stage, it is a common practice in the oil and gas industry to employ the services of landmen to review the recorded public records on file to determine the current record title interest owners to the mineral estate beneath a specific tract of land. Since the mineral and surface estates can be severed from one another, it is not uncommon for oil and gas companies to focus on the mineral estate, for mineral leasing purposes, rather than the surface estate. In a competitive situation, this procedure is also utilized because the time periods necessary to order more thorough abstracts of title and to identify the record title ownership for mineral estates in various tracts of land could place the company at a competitive disadvantage.

Such preliminary title reviews are useful in the determination of apparent title to the subject lands but are subject to error and subject to other matters of record that may burden, diminish or defeat a company's interests in the acquired lands. Caza Petroleum employs reputable landmen who are experienced in title searches in the areas in which Caza Petroleum seeks to acquire interests, and the work product of those landmen are ordinarily believed to be accurate for the lands identified and pursued.

Prior to drilling a well, and after leases are secured based upon the preliminary title investigation, a more complete title review is generally commissioned, or an abstract of title is acquired, for purposes of preparing a formal drilling title opinion. Certified abstracts include copies of documents that affect ownership under a given tract of land. Such documents may include evidence of liens and encumbrances, defects in title, boundary conflicts, legal proceedings, competing claims to title, prior leases, regulatory restrictions, and similar factors. The drilling title opinion, prepared by a title attorney, thoroughly examines and discusses such title elements, identifies title issues, and recommends steps to pursue in resolving any such issues prior to drilling an oil or gas well. Title opinions are ordinarily prepared prior to the actual drilling of a well. They may, however, be commissioned prior to the purchase of leases where the size of the tract, the amount of lease bonus at risk, or known complexities in title warrant a detailed investigation before acquiring leases.

Caza and its subsidiaries frequently rely upon landmen to perform title reviews for purposes of acquiring leasehold interests. The Company's subsidiaries also reviews the preliminary title reviews, or title opinions if available, of companies from which it acquires interests or with which it enters agreements to earn such interests. In some cases, a title attorney may be employed to review the ownership of the mineral estate prior to acquiring leases from the

owner of the mineral estate, and that review may or may not, depending upon the circumstances, address other estates in the lands (e.g., the surface ownership) and the elements stated above.

Thus, although title reviews have been and will continue to be performed according to standard industry practice prior to the acquisition of most crude oil and natural gas leases or rights to acquire leases in prospects and properties or the commencement of drilling wells, such reviews do not guarantee or preclude that an unidentified or latent defect in the chain of title will not exist, or that a third party claim will not arise that burdens, diminishes or defeats the claim of the Company or its subsidiaries which could result in a reduction of the revenue received by the Company or its subsidiaries and could have a material adverse effect on the Company's business, financial condition, results of operations and trading price, if any, of the common shares. In addition, the Company's subsidiaries may elect to accept certain risks in connection with title to its oil and gas prospects and properties, and acceptance of such risks can result in loss of title to all or a portion of one or more given properties, title curative costs, re acquisition costs, and/or a reduction in the revenue received by the Company or its subsidiaries and could have a material adverse effect on the Company's business, financial condition, results of operations, and trading price of the common shares.

Volatility of Crude Oil and Natural Gas Prices and Markets

The Company's financial condition, operating results and future growth are dependent on the prevailing prices for crude oil and natural gas production. Historically, the markets for crude oil and natural gas have been volatile and such markets are likely to continue to be volatile in the future. Prices for crude oil and natural gas are subject to large fluctuations in response to relatively minor changes to the demand for crude oil and natural gas, whether the result of uncertainty or a variety of additional factors beyond the control of the Company. The Company and its subsidiaries must periodically negotiate contracts with a limited number of potential purchasers. The price negotiated is influenced by the size of the crude oil or natural gas stream, the nature of the crude oil or natural gas and its location when produced. Any substantial decline in the prices of crude oil and natural gas could have a material adverse effect on the Company and the level of its crude oil and natural gas reserves. Additionally, the economics of producing from some wells may change as a result of lower prices, which could result in a suspension of production. No assurance can be given that crude oil and natural gas prices will be sustained at levels which will enable the Company or its subsidiaries to operate profitably. From time to time the Company or its subsidiaries may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

Environmental Regulation and Risks

Extensive federal, state and local environmental laws and regulations in the United States affect all of the operations of the Company and its subsidiaries. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards, and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. There can be no assurance that the Company or its subsidiaries will not incur substantial financial obligations in connection with environmental compliance.

Significant liability could be imposed on the Company or its subsidiaries for damages, clean up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of properties purchased by the Company's subsidiaries or non compliance with environmental laws or regulations. Such liability could have a material adverse effect on the Company. Moreover, the Company cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by the Company or its subsidiaries for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on the Company and could have a material adverse effect on the Company's business, financial condition, results of operations and trading price of the common shares.

Loss of Key Personnel

The Company depends to a large extent on the efforts and continued employment of the management team, who have developed the operations of Caza Petroleum and its predecessors since inception. The loss of the services of these officers and other key personnel could adversely affect the Company's business, and the Company does not maintain key man insurance on any of these persons. The success of drilling operations and other activities integral to its business will depend in part on the ability to attract and retain experienced geologists, engineers and other professionals. Competition for experienced geologists, engineers and some other professionals is extremely intense.

The Company's ability to compete in the oil and natural gas exploration and production industry will be harmed to the extent that the Company and its subsidiaries are unable to retain and attract experienced technical personal.

Operating and Insurance Risks

The operations of the Company and its subsidiaries are subject to hazards and risks inherent in drilling for, producing and transporting oil and natural gas. These risks include, among others, fires, explosions, geologic formations with abnormal pressures, collapses of casing surrounding the drill pipe in wells, mechanical failures, failure of oilfield drilling and service tools, uncontrollable flows of underground natural gas, oil and formation water, changes in below ground pressure in a formation that causes the surface to collapse or crater, pipeline ruptures and cement failures, and environmental hazards such as leaks, spills and toxic discharges. These risks can cause substantial losses resulting from personal injury or loss of life, damage and destruction of property and equipment, pollution and other environmental damage, regulatory investigations and penalties, and suspension of operations. As protection against operating hazards and in accordance with customary industry practices, the Company and its subsidiaries maintains insurance coverage against some, but not all, potential losses because the insurance coverage is not available or because premium costs are considered too high. Losses could occur for uninsured risks or in amounts exceeding the insurance coverage and these losses could have a materially adverse effect on the Company's business, financial condition, results of operations and trading price of the common shares.

Need to Add Reserves

The Company's crude oil and natural gas reserves and production, and therefore its cash flows and earnings are highly dependent upon the Company developing and increasing its current reserve base and discovering or acquiring additional reserves. Without the addition of reserves through exploration, acquisition or development activities, the Company's reserves and production will decline over time as reserves are depleted. To the extent that cash flow from operations is insufficient and external sources of capital become limited or unavailable, the Company and its subsidiaries may be unable to make the capital investments required to maintain and expand their crude oil and natural gas reserves. There can be no assurance that the Company or its subsidiaries will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs. Failure to replace reserves could have a material adverse effect on Caza's business, financial condition, results of operations and trading price of the common shares.

Industry Conditions

The crude oil and natural gas industry is intensely competitive and the Company and its subsidiaries compete with other companies which possess greater technical and financial resources. Many of these competitors not only explore for and produce crude oil and natural gas, but also carry on refining operations and market petroleum and other products on an international basis. Crude oil and natural gas production operations are also subject to all the risks typically associated with such operations, including but not limited to premature decline of reservoirs and invasion of water into producing formations.

The marketability and price of crude oil and natural gas which may be acquired or discovered by the Company or its subsidiaries will be affected by numerous factors beyond the control of the Company. Pricing of crude oil is dependent on supply and demand for specific qualities of crude oil in specific market areas and quality differentials are therefore subject to change with time. The ability of the Company and its subsidiaries to market any natural gas discovered may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Company is also subject to market fluctuations in the prices of crude oil and natural gas, uncertainties related to the delivery of its reserves to pipelines and processing facilities and extensive government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of crude oil and natural gas and many other aspects of the crude oil and natural gas business.

The Company and its subsidiaries are also subject to a variety of waste disposal, pollution control and similar environmental laws and regulations in each of the jurisdictions in which the Company or its subsidiaries operate or may operate. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently with crude oil and natural gas and can impact the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures. The Company and its subsidiaries may be responsible for abandonment and site restoration costs.

Non Operator Activities

The Company's subsidiaries do not operate all of the properties in which they have an interest. Some properties are

operated by other companies, and the Company and its subsidiaries have limited ability to influence or control the operation or future development of these non operated properties or the amount of capital expenditures that may be required to fund their operation. Dependence on the Operator and other working interest owners for these projects and the limited ability to influence or control the operation and future development of these properties could have a material adverse effect on the realization of targeted returns or lead to unexpected future costs.

Inability to Bring Actions or Enforce Judgments by United Kingdom Investors

The Company is incorporated under the laws of Canada, and its principal executive offices are located in the United States. A majority of the directors and officers of the Company reside principally in the United States or Canada and all or a substantial portion of the Company's assets and the assets of these persons are located outside the United Kingdom. Consequently, it may not be possible for an investor to effect service of process within the United Kingdom on the Company or those persons. Furthermore, it may not be possible for an investor to enforce judgments obtained in United Kingdom courts based upon the civil liability provisions of United Kingdom securities laws or other laws of the United Kingdom against the Company or those persons. There is doubt as to the enforceability in original actions in Canadian courts of liabilities deriving from English's securities laws, and as to the enforceability in Canadian courts of judgments of English courts obtained in actions based upon the civil liability provisions of English securities laws.

Equipment Unavailability

Caza Petroleum does not own the drilling rigs and related equipment required to develop its oil and gas properties and relies on third parties to provide drilling and other oil field services. Demand is high for equipment and services in the geographic areas that Caza Petroleum has selected for exploration and development. This demand may reduce the availability of that equipment and services and could delay Caza Petroleum's exploration, development and exploitation activities. The leases under which Caza Petroleum develops properties provide time periods during which it must generate production of oil or gas or the lease expires. Any delay that prevented completion of drilling on leased property during the term of the lease would require additional expenditures by Caza Petroleum to renew the lease or possibly the loss of any benefit from past development expenditures and future production revenue. In addition, the high demand for equipment and services increases the costs to Caza Petroleum of the equipment and associated supplies and personnel. Any substantial delays to gain access to equipment and services or material increases in costs could adversely affect Caza Petroleum's business and financial condition and have a material adverse effect on Caza's business, financial condition, results of operations and trading price of the common shares.

Potential Conflicts of Interest

There are potential conflicts of interest to which some of the directors and officers of the Company are subject in connection with the operations of the Company. Some of the directors and officers are material shareholders of Caza Petroleum or are engaged and will continue to be engaged in the search for crude oil and natural gas interests on their own behalf and on behalf of other corporations, and situations may arise where the directors and officers will be in direct competition with the Company. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the BCBCA which require a director or officer of a corporation who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with the Company, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the BCBCA.

Operating Through Subsidiaries

The Company currently conducts all of its operations through its subsidiary, Caza Petroleum. Therefore the Company will be dependent on the cash flows of Caza Petroleum and its subsidiaries to meet its obligations. The ability of Caza Petroleum and its subsidiaries to make payments to the Company may be constrained by among other things: the level of taxation, particularly corporate profits and withholding taxes, in the jurisdiction in which it operates.

In addition, the Company and Caza Petroleum may be considered to be "related parties" for the purposes of Multilateral Instrument 61-101 of the Canadian Securities Administrators and Caza or Caza Petroleum may therefore be required to obtain a formal valuation or disinterested shareholder approval before completing certain transactions with the other party.

Endeavour Agreement

Either Endeavour or Caza Petroleum may terminate the Endeavour agreement as of the end of each anniversary period by giving 60 days prior written notice. Endeavour has notified Caza Petroleum that the Endeavour agreement will terminate on April 8, 2010. Following the termination of this agreement Caza Petroleum will be required to locate

additional sources of funding and/or farm-in or joint venture partners to implement its drilling plan for the properties formerly subject to such agreement.

Risks of Foreign Operations

All of the Company's crude oil and natural gas properties and operations are located in the United States. As such, the Company is subject to political, economic, and other uncertainties, including, but not limited to, changes in energy policies, currency fluctuations and royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted, as well as risks of loss due to terrorism. The Company's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with the Company's operations in the United States, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of the courts of Canada or enforcing Canadian judgments in such other jurisdictions.

Accordingly, the Company's exploration, development and production activities in the United States could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company's business, financial condition, results of operations and trading price of the common shares.

Fluctuations in Foreign Currency Exchange Rates

All of the Company's operations are located in the United States and all of the Company's sales are denominated in U.S. dollars. Fluctuations in the U.S. dollar exchange rates may cause a negative impact on revenue and costs and could have a material adverse impact on the Company's operations.

Marketability of Production

The ability to generate revenue is dependent upon Caza Petroleum's ability to market its production. The marketability of such production depends in part upon a variety of factors, some of which are beyond Caza Petroleum's control. Some of these factors include the ability to:

- transport its crude oil and natural gas to market;
- access processing facilities and refining capacity; and
- obtain required regulatory approvals.

Caza Petroleum delivers oil and natural gas through pipelines and gathering systems and on barges that it does not own. These facilities may not be available to Caza Petroleum in the future. Other factors influencing the marketability of production include the nature of the crude oil produced, the availability and capacity of production gathering systems and pipelines, U.S. federal and state control and regulation of crude oil and natural gas production, transportation, and export and government intervention in the internal energy demand and supply balance. If marketability factors change, the impact on Caza Petroleum's ability to generate revenues and operate profitably could be substantial.

Seasonal Nature of the Business

Seasonal weather conditions and lease stipulations can limit drilling and producing activities and other oil and natural gas operations in certain areas of the Texas Gulf Coast region. These seasonal anomalies can increase competition for equipment, supplies and personnel during the spring and summer months, which could lead to shortages and increase costs or delay operations. Such cost increases or delays could have a material adverse effect on Caza's business, financial condition, results of operations and trading price of the common shares.

Terrorism

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope, and the United States and others instituted military action in response. These conditions caused instability in world financial markets and generated global economic instability. The continued threat of terrorism, the impact of military and other action, including U.S. military operations in Iraq and Afghanistan and the geopolitical conditions in the Middle East generally may lead to continued volatility in prices for crude oil and natural gas and could affect the markets for Caza Petroleum's production. In addition, future acts of terrorism could be directed against companies operating in the United States. Further, the U.S. government has issued public warnings that indicate that energy assets might be specific targets of terrorist organizations. These developments have subjected Caza Petroleum's operations to

increased risks and, depending on their ultimate magnitude, could have a material adverse effect on Caza's business, financial condition, results of operations and trading price of the common shares.

Internal Control Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting (ICFR), as such term is defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for Caza. They have, as at the financial year ended December 31, 2009, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The control framework our officers used to design Caza's ICFR is the *Internal Control -- Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Under the supervision of the Chief Executive Officer and the Chief Financial Officer, Caza conducted an evaluation of the effectiveness of our ICFR as at December 31, 2009 based on the COSO Framework. Based on this evaluation, the officers concluded that as of December 31, 2009, Caza's ICFR provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There were no changes in our ICFR during the year ended December 31, 2009 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Caza's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to Caza's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Caza's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial year end of the Company for the foregoing purposes.