

## 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, 2009, the audited consolidated financial statements and MD&A for the year ended December 31, 2008 and the corresponding Annual Information Form. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://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 5, 2009.

### 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 2009 and into 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 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. 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.

## FINANCIAL AND OPERATING RESULTS

### Petroleum and Production Revenue

	Three months ended September 30, 2009		Nine months ended September 30, 2008	
Natural gas				
Production (Mcf)	<b>92,429</b>	83,727	<b>263,034</b>	257,655
Revenue (\$)	<b>297,718</b>	772,393	<b>934,274</b>	2,483,020
Price (\$/Mcf)	<b>3.22</b>	9.23	<b>3.55</b>	9.64
Natural gas liquids				
Production (bbls)	<b>248</b>	884	<b>1,011</b>	1,361
Revenue (\$/bbl)	<b>16,227</b>	85,583	<b>45,039</b>	136,554
Price (\$/bbl)	<b>65.38</b>	96.78	<b>44.53</b>	100.34
Oil Production				
Production (bbls)	<b>3,682</b>	405	<b>13,655</b>	702
Revenue (\$/bbl)	<b>239,848</b>	47,079	<b>689,479</b>	82,129
Price (\$/bbl)	<b>65.13</b>	116.22	<b>50.49</b>	116.94
Combined				
Production (Mcfe)	<b>116,013</b>	91,463	<b>351,032</b>	270,033
Revenue (\$)	<b>553,793</b>	905,055	<b>1,668,792</b>	2,701,703
Price (\$/Mcfe)	<b>4.77</b>	9.90	<b>4.74</b>	10.01
Mcf/d	<b>1,261</b>	994	<b>1,286</b>	989
Boe/d	<b>210</b>	166	<b>214</b>	165

Revenues from oil and gas sales decreased 39% to \$553,793 for the three-month period ended September 30, 2009 from \$905,055 for the three-month period ended September 30, 2008 (the “comparative period”) and were 38% lower than the nine-month period ended September 30, 2008. Caza’s production increased 27% to 116,016

Mcfе for the three-month period ended September 30, 2009, up from 91,463 Mcfе for the comparative period. This represents an average daily production rate increase of 267 Mcfе/d for the three months ended September 30, 2009 to 1,261 Mcfе/d, as compared to 994 Mcfе/d for the comparative period. The average natural gas price received by Caza decreased 52% to \$4.77 per Mcfе during the three-month period ended September 30, 2009 from \$9.90 per Mcfе during the comparative period. The decrease in revenues from the third quarter of 2008 is a result of the decrease in commodity prices. Presently the Company has not hedged any of its production and does not have any commodity price management programs in place.

### Operating Netback Summary

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

(on a Mcfе basis)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Oil and natural gas revenue	\$ 4.77	\$ 9.90	\$ 4.75	\$ 10.01
Production expense	(1.36)	(0.77)	(1.33)	(0.74)
Severance expense	(0.35)	(0.73)	(0.34)	(0.71)
Transportation expense	(0.18)	(0.17)	(0.13)	(0.14)
Operating netback (non-GAAP)	2.88	8.23	2.95	8.42

### Production Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Severance (\$)	40,867	67,074	119,433	190,857
Transportation (\$)	21,079	15,489	45,863	37,672
Production (\$)	157,763	70,766	467,950	199,764
Severance, transportation and production (\$)	219,709	153,329	633,246	428,293
Severance, transportation and production (\$/Mcfе)	1.89	1.68	1.80	1.59

Severance taxes and transportation expenses totaled \$61,946 (\$0.53/Mcfе) for the three-month period ended September 30, 2009, representing a decrease of 25% from \$82,563 (\$0.90/Mcfе) incurred during the comparative period. 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 decrease in severance taxes and transportation costs are a result of a 52% decrease in the average commodity price received by Caza during the third quarter of 2009.

Production expenses for the three-month period ended September 30, 2009 was \$157,763 compared to \$70,766 for the comparative period. Caza's average lifting cost for the three-month period ended September 30, 2009 was \$1.36 per Mcfе versus \$0.77 per Mcfе for the comparative period. This increase in lifting costs occurred as a result of the natural decline in production of certain wells and the bringing on of new wells which currently have higher lifting costs than our historical average.

## Depletion, Depreciation and Accretion

	Three months ended		Nine months ended	
	September 30, 2009	2008	September 30, 2009	2008
Depletion and depreciation (\$)	<b>614,251</b>	320,042	<b>2,006,738</b>	991,152
Accretion (\$)	<b>6,154</b>	3,566	<b>18,461</b>	10,698
Depletion, depletion and accretion (\$)	<b>620,405</b>	323,608	<b>2,025,199</b>	1,001,850
Depletion, depletion and accretion (\$/Mcf)	<b>5.35</b>	3.54	<b>5.77</b>	3.71

Depletion, depreciation, amortization and accretion expense for the three months ended September 30, 2009 increased to \$620,405 (\$5.35/Mcfe) from \$323,608 (\$3.54/Mcfe) in the comparative period. The increase resulted from drilling costs associated with, and production from, the wells drilled by Caza during 2008.

Costs of acquiring unproved properties of \$11,364,481 were excluded from depletable costs in accordance with Canadian Institute of Chartered Accountants Accounting Guideline 16. A proportionate amount of the carrying value will be transferred to the depletable pool as reserves are proven up through the execution of Caza's exploration programs.

## General and Administrative Expenses

	Three months ended		Nine months ended	
	September 30, 2009	2008	September 30, 2009	2008
General and administrative (\$)	<b>938,483</b>	1,889,194	<b>3,179,031</b>	4,606,074
Joint venture partner reimbursements (\$)	<b>(608,854)</b>	-	<b>(1,184,676)</b>	-
General and administrative recovery (\$)	<b>(62,334)</b>	(31,857)	<b>(109,384)</b>	(148,921)
Net general and administrative (\$)	<b>267,295</b>	1,857,337	<b>1,884,971</b>	4,457,153
General and administrative (\$/Mcf)	<b>8.09</b>	20.66	<b>9.05</b>	17.08
Net general and administrative (\$/Mcf)	<b>2.30</b>	20.31	<b>5.37</b>	16.52

Net general and administrative expenses were \$267,291 for the three-month period ended September 30, 2009 and \$1,857,337 for the comparative period. Stock-based compensation expense in the amount of \$114,229 is included in general and administrative expenses for the three-month period ended September 30, 2009 (\$149,215 in 2008). During the three-month period ended September 30, 2009, Caza capitalized general and administrative expenses relating to exploration and development activities of \$58,887, of which \$39,422 related to capitalized stock-based compensation. Under certain joint venture agreements Caza receives reimbursements of general and administrative expenses.

## Net loss

Caza incurred a net loss of \$553,423 for the three-month period ended September 30, 2009 compared to a net loss of \$2,164,475 during the comparative period. The decrease in net loss from the comparative period occurred as a result of significant reductions in general and administrative expenses, reimbursements from joint venture partners and the de-recognition of future income tax assets in the second quarter of 2008.

## Investments

Interest income for the three-month period ended September 30, 2009 was \$193 down from \$132,295 during the same period in 2008. Caza invested its cash 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 is a reconciliation of funds flow used in operations to net loss:

The Company had a funds flow from operations for the three month period ended September 30, 2009 of \$157,545 as compared to a funds flow used in operations for the three month period ended September 30, 2008 of \$841,092.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net loss	<b>(553,423)</b>	(2,164,475)	<b>(2,871,550)</b>	(3,336,861)
Depletion, depreciation, amortization and accretion	<b>620,405</b>	323,608	<b>2,025,199</b>	1,001,850
Stock-based compensation	<b>90,563</b>	149,215	<b>363,212</b>	401,441
Asset retirement obligations settled	-	-	-	(9,767)
Future income tax expense (recovery)	-	850,560	-	426,082
Funds flow from (used in) operations	<b>157,545</b>	(841,092)	<b>(483,139)</b>	(1,517,255)
Funds loss per share – basic and diluted	<b>0.00</b>	(0.01)	<b>(0.00)</b>	(0.01)

## Capital Expenditures

By Type (\$)	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Drilling and completions	<b>(79,393)</b>	4,283,732	<b>150,765</b>	9,840,167
Seismic	-	-	<b>19,427</b>	166,314
Facilities and lease equipment	<b>28,616</b>	175,690	<b>230,765</b>	1,438,223
Office furnishings and equipment	<b>7,464</b>	47,761	<b>7,464</b>	121,969
Leasehold /geological /geophysical	<b>286,301</b>	1,664,782	<b>922,950</b>	1,955,737
Other costs (recovery)	<b>118,323</b>	519,147	<b>142,907</b>	559,009
Total	<b>361,311</b>	6,691,112	<b>1,474,278</b>	14,081,419

During the nine month period ended September 30, 2009 Caza initiated the 2009 drilling schedule with the Lucky Penny 10 State #1 and the Moore Bailout 11 State #1 wells located in Lea County, New Mexico. Caza plans to drill sequentially 4 Abo-Wolfcamp wells in 2009. During the nine month period ended September 30, 2009, as a result of joint venture agreements the Company received payments for prior period costs of \$556,589 of lease acquisition costs and seismic reprocessing costs of \$435,500. In addition, the Company increased its working interests in certain oil and gas properties in consideration for the settlement of certain joint venture accounts receivable due to the Company.

## 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. An additional 26,502,000 common shares are issuable pursuant to certain exchange rights attached to certain outstanding common shares of Caza Petroleum.

The following table sets forth the classes and number of outstanding securities of the Company and the number of issued and issuable Common Shares on a fully diluted basis. See note 5 to the corresponding interim financial statements.

	<b>Issued and Issuable Securities</b>
<b>Common Shares</b>	
Issued and outstanding	119,319,000
Issuable from exchangeable shares	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>6,118,334</u>
<b>Total Common Shares issued and issuable</b>	<b><u>172,439,334</u></b>
 <b>Warrants Issued</b>	
Warrants to purchase common shares	19,800,000
Broker warrants	<u>700,000</u>
Total warrants	<u>20,500,000</u>
 <b>Stock Options Issued</b>	
Total stock options outstanding	<u>6,118,334</u>

## Commitments

The following is a summary of the estimated amounts required to fulfill Caza's remaining contractual commitments as at September 30, 2009:

<b>Type of Obligation (\$)</b>	<b>Total</b>	<b>&lt;1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>Thereafter</b>
Operating leases	48,674	48,674	-	-	-
Asset retirement obligations	767,972	11,714	105,909	79,259	571,090
<b>Total contractual commitments</b>	<b>816,646</b>	<b>60,388</b>	<b>105,909</b>	<b>79,259</b>	<b>571,090</b>

## Liquidity and Capital Resources

At September 30, 2009, Caza had a working capital surplus of \$8,854,631 (December 31, 2008 \$10,812,048). The decrease in working capital of \$1,957,416 for the nine month period was a result of a net funds outflow from operations of \$483,139 and capital expenditures of \$1,474,278. During the quarter ended September 30, 2009 the Company's cash position decreased to \$11,116,454 from \$14,103,827 at December 31, 2008. This was a result of joint venture partner lease acquisition reimbursements of \$992,089 offset by a net outflow of working capital of \$1,029,956 which was accompanied by a net use of funds in operations of \$483,139 and by exploration and leasehold expenditures of \$2,466,367. Caza had no bank credit facilities drawn or in place.

On April 8, 2009, the Company entered into a participation agreement with Endeavour Operating Corporation to participate in a jointly established exploration and development program in the United States. The exploration program will primarily focus on Caza's existing onshore acreage position and portfolio of identified opportunities throughout Texas, Louisiana and New Mexico. Under the terms of the Agreement, Endeavour has the right to participate in assets presented to it in its sole discretion. With respect to those assets in which Endeavour elects to participate, Endeavour will fund the acquisition, exploration and appraisal activity costs attributable to Caza's interest in such assets. In consideration for these payments, Endeavour will earn a 75% participating interest in any interest then owned by Caza in any particular asset in which Endeavour elects to participate. The term of the Agreement will run for two years. Endeavour has also agreed to pay a program fee of US\$3 million per annum to be paid monthly. However, either party may terminate the Agreement as of the end of each anniversary period by giving 60 days prior written notice. If neither party terminates the Agreement, it shall automatically renew for subsequent one-year periods.

Caza will typically use four sources of funding to finance its capital expenditure program: internally generated cash flow from operations, proceeds from the sale of properties, bank debt where appropriate and if available 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, due to the \$21.4 million financing completed in 2008 and the joint venture with Endeavour Operating Corporation completed on April 8, 2009, management anticipates that the Company will have adequate liquidity to fund its operations and budgeted capital expenditures.

Caza and its subsidiary, Caza Petroleum, Inc. ("Caza Petroleum") 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 may therefore be required to obtain a formal valuation or disinterested shareholder approval before completing certain transactions with the other party.

## Summary of Quarterly Results

	Three months ended September 30, 2009	Three months ended June 30, 2009	Three months ended March 31, 2009	Three months ended December 31, 2008
Petroleum and natural gas sales	553,793	561,083	553,916	650,186
Net income (loss)	(553,423)	(982,247)	(1,335,880)	(1,749,825)
Per share – basic and diluted	(0.00)	(0.01)	(0.01)	(0.01)
Funds flow from operations (non-GAAP) <sup>(1)</sup>	157,545	(117,808)	(522,877)	(1,046,915)
Per share – basic and diluted	0.00	(0.00)	(0.00)	(0.00)
Net capital expenditures (recovery)	(361,311)	(202,139)	1,315,105	3,851,867
Average daily production (mcf/d)	1,261	1,338	1,258	1,130
Weighted average shares outstanding	145,821,000	145,821,000	145,821,000	145,821,000

	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) <sup>(1)</sup>	(841,092)	(326,850)	(349,312)	(427,152)
Per share – basic and diluted	(0.01)	(0.00)	(0.00)	(0.01)
Net capital expenditures	6,691,112	3,237,140	4,153,166	3,047,631
Average daily production (mcf/d)	994	1,005	957	1,019
Weighted average shares outstanding	145,675,139	97,723,874	95,821,000	80,782,196

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

### Factors that have caused variations over the quarters:

- In 2009 Caza acquired all of the working interest of Probe Resources, Inc. in the Safari Project located in Wharton County, Texas. The acquisition dated April 1, 2009, included among other lease hold Probe's 19.2 % working interest in the Andel # 2201 well, 18.36% working interest in the Hinton # 1501 well, 18.36% working interest in the Rachunek #201 well and 19.2% working interest in the Gavranovic #701 well. All four wells are operated by Caza.
- In 2009 the Company drilled 2 gross (0.25 net) wells in Lea County New Mexico. The two wells are the Lucky Penny 10 State # 1 and the Moore Bailout 11 State # 1, both wells are currently undergoing completion operations.
- On April 8, 2009, the Company completed a participation agreement with Endeavour Operating Corporation to participate in a jointly established exploration and development program in the United States.
- The Company drilled 16 gross (6.15 net) wells in Texas, New Mexico and Louisiana during 2007 and 2008 of which 13 gross (4.33 net) wells were completed. One well is waiting further completion operations pending the drilling of an appraisal well.

## **Financial Instruments**

For a discussion about financial instruments, please refer to the corresponding September 30, 2009 consolidated interim financial statements and our Management's Discussion and Analysis for the year ended December 31, 2008 available at [www.sedar.com](http://www.sedar.com).

## **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, 2008 available at [www.sedar.com](http://www.sedar.com).

## **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: In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that effective January 1, 2011, Canadian GAAP for publicly accountable entities will be replaced in full with International Financial Reporting Standards (IFRS) as promulgated by the International AcSB. Management is currently assessing the impact of adopting IFRS and is developing a plan to achieve convergence to IFRS by January 1, 2011. Based on management's initial assessments, the Company has identified that the accounting and disclosure of capital assets are the areas that will have the greatest potential impact upon conversion.

In February 2008, the AcSB issued Section 3064, *Goodwill and Intangible Assets* and amended Section 1000, *Financial Statement Concepts* clarifying the criteria for recognizing assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard was adopted on January 1, 2009 and did not have a material impact on our results of operations or financial position.

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. Management does not expect the adoption of this section to have a material impact on the results of operations or financial position.

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. Management does not expect the adoption of this section to have a material impact on the results of operations or financial position.

## **Risks and Uncertainties**

For a discussion about risk and uncertainties, please refer to our Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2008 available at [www.sedar.com](http://www.sedar.com).

## **Internal Control Over Financial Reporting**

There was no change to Casa's internal control over financial reporting during the nine month period ended September 30, 2009 that would materially affect, or is reasonably likely to materially affect, Casa's internal control over financial reporting.