

MARCH 26, 2009

Caza Oil & Gas, Inc.: ANNOUNCES RESULTS FOR THE YEAR ENDED DECEMBER 31, 2008

HOUSTON, TEXAS—(Marketwire – March 26, 2009) – Caza Oil & Gas, Inc. (“Caza” or the “Company”) (TSX:CAZ) (AIM:CAZA) announces the Company’s final audited results for the year ended December 31, 2008. Caza has hydrocarbon exploration, development and production assets, held through its subsidiary Caza Petroleum, Inc., in Texas, New Mexico and Louisiana USA.

Highlights of 2008 include:

- Revenues from oil and gas sales increased by 143% to \$3,351,890 in 2008 from \$1,380,133 in 2007. The average sales price increased by 34% in 2008 to an average price of \$8.96 per Mcfe;
- Natural gas, natural gas liquids and crude oil production increased by 81% from 2007 to 2008, averaging 1,025 Mcfe/d in 2008 (includes associated condensate production), mainly as a result of drilling and completing 11 wells in Texas and New Mexico (eight were brought on line in 2008, and the remaining three will be brought on line in 2009);
- Caza had a 92% success rate on its 2008 drilling program with capital expenditures of \$13,997,201;
- In July 2008, the Company completed a 50,000,000 common share private placement at \$0.46 (23 pence) per common share for gross proceeds of \$23,000,000;
- Increase of 112% in proved (1P) reserves at year end 2008 to 6,740.2 MMcfe and an increase of 58% in proved and probable (2P) reserves at year end 2008 to 28,117.5 MMcfe;
- Operating netbacks increased by 56 percent from 2007 to 2008 to \$6.90 per Mcfe in 2008, reflecting increases in natural gas prices and operating efficiencies realized from production increases; and
- Caza’s 2008 year-end cash totaled \$14,103,827 in cash and cash equivalents.

W. Michael Ford, Chief Executive Officer’ commented:

“I am pleased to announce continued success in Caza’s exploration and production activities. Over the course of 2008, we have experienced a 92% success rate on our drilling program. As a result our production volumes were up 81% from the previous year and corresponding revenues were up 143% despite well publicized, difficult market conditions.

Our belief is the fundamentals of Caza's business are sound. We are taking advantage of the flexibility afforded by our long term leases, and a diverse project portfolio will allow us the flexibility to modify our drilling program during 2009 to take advantage of anticipated lower drilling costs, higher commodity prices and potential drilling successes.”

Copies of the Company's financial statements for the year ended December 31, 2008, the accompanying management's discussion and analysis and the Company's Annual Information Form for the year ended December 31, 2008 (which contains further information about the Company, its principal properties and its crude oil and natural gas reserves), are available on SEDAR at www.sedar.com and the Company's website at www.cazapetro.com.

For further information please contact:

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(Nominated Adviser)

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

President/CEO Statement:

Caza has sufficient cash resources to ensure continued activity under difficult market conditions. In fact, management is restructuring the Company's strategic goals in order to take quick advantage of opportunities that present themselves as a result of these conditions.

Caza had a 92% success rate on its 2008 drilling program resulting in an 81% increase in natural gas, natural gas liquids and crude oil production from 2007 to 2008.

Caza finds itself in a small fraternity of companies that have zero debt. The Company's management and staff are united in making Caza stronger and more efficient during these tough times. The refocused Company is reducing its general and administrative overhead, while continuing to maintain and provide significant growth opportunities (for example, salary and benefits were reduced by approximately 20% in February 2009, resulting in annualized G&A cost savings of approximately \$500,000). Caza is well positioned to acquire producing assets as they come available, utilize its prospect inventory through drilling or farmouts and take advantage of anticipated lower costs for drilling, producing and leasing.

Caza is considering drilling additional wells as costs come in line with product pricing and/or leveraging its working capital into a strategic joint venture(s), merger(s) or acquisition(s).

Reserve Data:

Caza reported an increase in proved (1P) reserves at year end 2008 to 6,740.2 MMcfe or an increase of 112%; proved plus probable (2P) reserves also increased at year end 2008 to 28,117.5 MMcfe or an increase of 58% (as depicted in the table below).

	2008			2007		
	Mbbl	MMcf	MMcfe	Mbbl	MMcf	MMcfe
Proved Developed						
Producing	46.3	1,833.9	2,111.7	5.2	2,500.5	2,531.7
Non Producing	105.2	258.1	889.3	0.5	136.8	139.8
Undeveloped	118.9	3,025.8	3,739.2	0.1	505.0	505.6
Total Proved (1P)	270.4	5,117.8	6,740.2	5.8	3,142.3	3,177.1
Probable	745.7	16,903.1	21,377.3	273.9	12,945.6	14,589.0
Total Proved + Probable (2P)	1,016.1	22,020.9	28,117.5	279.7	16,087.9	17,766.1
Possible	1,833.0	52,137.6	63,135.6	409.7	52,574.7	55,032.9
Proved + Probable + Possible (3P)	2,849.1	74,158.5	91,253.1	689.4	68,662.6	72,799.0

Present value cash flows of net proved and probable reserves as at December 31, 2008:

Present value cash flow, net proved plus probable reserves	PV 10% before income taxes	PV 10% after income taxes
	(US\$ millions)	(US\$ millions)
Forecast price and cost assumptions	85.49	55.54

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

The reserves data set out in this announcement (including in the above tables) have been extracted from the Company's Annual Information Form (available on SEDAR at www.sedar.com) and the NSAI Report (as defined below). The evaluation of the reserves data included in the Annual Information Form and in the NSAI Report (as defined below) complies with standards set out in the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society). References to the NSAI Report are to the report prepared on the Company's reserves by Netherland Sewell & Associates, Inc. dated December 31, 2008 and entitled "12/31/08 year end reserve report".

Notes:

- (1) "Net" reserves are Caza Petroleum's working interest (operating or non operating) share after deduction of royalty obligations, plus Caza Petroleum's royalty interests in reserves. "Gross" reserves are Caza Petroleum's working interest (operating or non operating) share before deduction of royalties and without including any royalty interests of Caza Petroleum.
- (2) "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (3) "Probable" reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

- (4) "Possible" reserves are those additional reserves that are less certain to be recovered than probable reserves. There is only a 10% probability that the quantities actually recovered will exceed the sum of the estimated proved plus probable plus possible reserves.
- (5) "Developed" reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production.
- (6) "Developed Producing" reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- (7) "Developed Non Producing" reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.
- (8) "Undeveloped" reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.
- (9) The pricing assumptions used in the NSAI Report with respect to net values of future net revenue (forecast) as well as the inflation rates used for operating and capital costs are set forth below. NSAI is an independent qualified reserves evaluator appointed pursuant to NI 51-101.
- (10) Royalties include severance and ad valorem taxes.
- (11) The product prices used in the constant price and cost evaluations in the NSAI Report were as follows:

**SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
AS OF DECEMBER 31, 2008
FORECAST PRICES AND COSTS**

Period Ending	Light and Medium Crude Oil Price (WTI) (US\$/bbl)	Natural Gas Price (Henry Hub) (US\$/Mcf)	Inflation ⁽¹⁾ (%/year)
12/31/2009	57.08	6.85	2
12/31/2010	67.60	7.52	2
12/31/2011	75.58	8.05	2
12/31/2012	84.93	8.86	2
12/31/2013	93.81	9.68	2
12/31/2014	95.70	9.87	2
12/31/2015	97.62	10.07	2
12/31/2016	99.56	10.27	2
12/31/2017	101.53	10.47	2
12/31/2018	103.59	10.69	2
12/31/2019	105.65	10.89	2

Thereafter, esc. 2% on Jan. 1 of each year.

Note:

- (1) In the forecast case all lease, well operating and capital costs have been escalated at the indicated rate.

2008 Business Development Activities:

A. Exploratory Drilling Program

Drilling operations were commenced on the Wilcox 116 property on January 15, 2008, and the Jonell Cerny G.U. #1 reached a total depth of 16,510 feet on March 3, 2008. Analysis of log data indicated the well encountered Wilcox Sand pay at multiple intervals from 13,500 feet to 16,400 feet. Completion operations began on April 2, 2008, but the operations encountered difficulties and the well was subsequently plugged back and completed in the Yegua formation. The well was fracture stimulated on August 25, 2008, and is producing from perforated

intervals between 10,966 and 10,991 feet. Caza is evaluating further opportunities to access additional Yegua intervals.

Drilling operations were commenced on the Lynch property on January 12, 2008, and reached a total depth of 13,513 feet on March 2, 2008. Analysis of log data indicated the well encountered Morrow Sand Pay at multiple intervals from 13,040 feet to 13,160 feet. Completion operations were commenced on April 30, 2008, and the well is currently producing from the Morrow formation.

Drilling operations were commenced on the Eland property on April 19, 2008, and the Hinton #1501 well reached a total depth of 6,719 feet on April 25, 2008 in the Frio formation. Analysis of log data indicated the well encountered Frio sand pay and the well was perforated at an interval from 5,024 feet to 5,039 feet. The well was shut in to conduct a gravel pack completion and is currently shut in awaiting further evaluation.

Drilling operations were commenced on the Puku property on April 29, 2008, and the Andel #2201 well reached a total depth of 6,310 feet on May 6, 2008 in the Frio formation. Analysis of log data indicated the well encountered Frio sand pay at depths ranging from 5,670 feet to 5,836 feet. The well was perforated and completed at an interval from 5,728 feet to 5,731 feet and is currently producing natural gas from the perforated interval.

Drilling operations were commenced by Momentum Energy Corp. on the Glass Ranch property on June 17, 2008, in the Wolfberry trend in the Permian Basin. Four wells (the Glass Ranch A #1, A #3, B #1 and B #3) have been drilled, fracture stimulated, completed and are producing across multiple pay sections in the Wolfcamp and Sprayberry formations (Wolfberry).

B. Commercial Transactions

In two separate commercial transactions which closed on December 30, 2007 and January 11, 2008, respectively, Caza Petroleum purchased participation rights from Austex Enterprises and Midland Oil & Gas, Inc., equal to 25% of Caza Petroleum's potential working interest in all projects located under certain transition zone seismic data volumes covering approximately 2,300 square miles located in South Louisiana and the Texas Gulf Coast Regions. As a result of the transactions, Caza Petroleum has increased its potential working interest and will have the controlling interest in projects derived from these data volumes.

On June 1, 2008, Caza executed an exploration agreement with Wise Oil & Gas No. 8, Ltd., naming Caza as operator to jointly and exclusively (subject to certain conditions) lease acreage in Lea, Eddy and Chaves Counties of southeast New Mexico on a 50/50 basis. Under the exploration agreement the parties thus far have leased approximately 7,362 gross acres in three separate properties located in the developing Wolfcamp horizontal oil and gas play in Lea County, New Mexico. Caza refers to the properties as Moore Cap (3,642 gross acres), Sombrero (1280 gross acres) and Bada-Bing (2,440 gross acres). Caza, as operator, is currently evaluating future work schedules for the properties. Caza and Wise will continue the leasing effort into 2009.

Following the success of the Glass Ranch wells, Caza has acquired leases on three additional properties located within the Wolfberry trend: (i) the Windham Wolfberry property (1,317 gross/net acres) in Upton County, Texas; (ii) the Sheep Mountain property (487 gross/net

acres) in Crockett County, Texas; and (iii) Grierson property (320 gross/net acres) in Reagan County, Texas.

C. Corporate Transactions

On May 22, 2008, Millennium Global Natural Resources Fund ("MGNR") agreed to surrender 2,000,000 Warrants to the Corporation and to donate to Caza a portion of the proceeds resulting from the future disposition of 2,846,550 Common Shares. MGNR also agreed to refrain from voting 646,550 Common Shares and to certain restrictions on the transfer of such Common Shares.

On July 3, 2008, Caza completed a private placement of 50,000,000 Common Shares for gross proceeds of approximately \$23 million. The Corporation used the net proceeds from the private placement to acquire 17,857 Caza Petroleum Shares in accordance with the Share Purchase Agreement.

D. Additional Property Activities

The Perez #1 well, located on the Rosita Creek property, reached its target depth of 3,616 feet in the Jackson Bar Sands formation on August 27, 2008. The well was logged but did not encounter hydrocarbons. Caza currently has no additional plans for this property.

The Bell Minerals #1 Well, located on the Alligator property, reached its target depth of 9,400 feet in the Hackberry Section on January 16, 2008. The well was then logged but did not encounter hydrocarbons. Caza has no further plans for this property.

On January 15, 2008, Caza Petroleum elected not to participate in drilling on the Northwest Raptor Property in Lea County, New Mexico and surrendered its interest in this property as a result.

The FEM 14-12 well, located in the Sawyer (Canyon) Field on the Aldwell Ranch property, reached its target depth of 7,855 feet on August 27, 2008. Electric logs indicated multiple potential pay sands in the Canyon formation. The well has been fracture stimulated and is currently producing gas from the fractured interval. However, production rates are lower than anticipated and Caza and Foundation Energy Management, LLC (operator) decided not to renew the farmout agreement on this property and it expired under its own terms on or about February 19, 2009. Caza still maintains an interest in approximately 6,961.47 gross acres (1,246.36 net acres) in this property.

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

The Dorothy Hite Gas Unit #3 (Wilcox) well ("DHGU #3"), operated by Forest Oil and located in the Wharton West Wilcox Field in Wharton County, Texas, successfully encountered hydrocarbons. On March 3, 2009, the DHGU #3 was successfully fracture stimulated. The DHGU #3 was originally completed naturally flowing at a gross rate of 4.4 MMcfe/d through a

12/64 choke at 5,075 psi. Following the recent stimulation, the well is flowing at approximately 7.84 MMcfe/d through a 16/64 choke at 6,400 psi. The DHGU #3 has confirmed the extension of productive limits within the Wharton West Wilcox Field, which supports additional development drilling offsetting Caza's Matthys-McMillan Gas Unit #1 well. It also supports the possibility of significantly increased production profiles through fracture stimulation within the field. Due to current market conditions and to take advantage of anticipated lower drilling costs and higher commodity prices, as well as conserving capital, Caza has not scheduled further development drilling at this time.

E. Developments since Year-End

Effective March 1, 2009, Caza entered into an exploration agreement (the "EA") with Prolithic Energy Company, L.P. ("Prolithic") covering portions of Caza's Las Animas property in Duval County, Texas, to jointly develop the property. Caza and Prolithic each had obtained leasehold within the prospective limits of the property and felt the most efficient way forward was to combine the leasehold for joint exploration. Among other things the EA names Caza as the operator of the property and gives each company the right to participate in an initial test well on a 50/50 basis. The EA with Prolithic significantly reduces Caza's exposure to the cost of drilling a test well, while maintaining its larger interest in future development locations.

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

This announcement contains forward-looking statements. These statements relate to future events or future performance of Caza. When used in this announcement, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "predict", "seek", "propose", "expect", "potential", "continue", and similar expressions, are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Corporation's current views with respect to certain events, and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation's actual results, performance, or achievements to vary from those described in this announcement. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this announcement as intended, planned, anticipated, believed, estimated, or expected. Specific forward-looking statements in this announcement include, among others, statements pertaining to the following:

- factors upon which Caza will decide whether or not to undertake a specific course of action;
- world wide supply and demand for petroleum products;
- expectations regarding Caza's ability to raise capital;
- treatment under governmental regulatory regimes; and
- commodity prices.

With respect to forward-looking statements in this announcement, Caza has made assumptions, regarding, among other things:

- the current global credit crisis and recession;
- commodity prices;
- the impact of increasing competition;
- Caza's ability to obtain additional financing on satisfactory terms; and
- Caza's ability to attract and retain qualified personnel.

Caza's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this announcement:

- current global credit crisis and recession;
- changes in the general economic, market, and business conditions;
- volatility in global market prices for oil and natural gas;
- competition;
- liabilities and risks, including environmental liability and risks, inherent in oil and gas operations;
- the availability of capital;
- alternatives to and changing demand for petroleum products; and
- the other factors considered under "Risk Factors" herein.

Furthermore, statements relating to "reserves or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitable in the future. Future flow rates from wells may vary from the flow rates disclosed herein, perhaps materially, and the wells in question may prove to be technically or economically unviable. Any future flow rates will be subject to the risks and uncertainties set out herein.

Financial outlook information contained in this announcement 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 announcement should not be used for purposes other than for which it is disclosed herein.

The forward-looking statements contained in this announcement are expressly qualified in their entirety by this cautionary statement. These statements speak only as of the date of this announcement. The Corporation does not intend and does not assume any obligation, to update these forward-looking statements to reflect new information, subsequent events or otherwise, except as required by law.

**To the Shareholders of
Caza Oil & Gas, Inc.**

We have audited the consolidated balance sheets of Caza Oil & Gas, Inc. as at December 31, 2008 and 2007, the consolidated statements of net loss, comprehensive loss, and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

(signed) "Deloitte & Touche LLP"
Chartered Accountants

Calgary, Canada
March 6, 2009

Caza Oil & Gas, Inc.
Consolidated Balance Sheets
(In United States Dollars)

As at December 31,	2008	2007
Assets		
Current		
Cash and cash equivalents (Note 9)	\$ 14,103,827	\$ 13,194,589
Accounts receivable	3,346,720	3,270,633
Prepaid and other	215,301	334,516
	17,665,848	16,799,738
Petroleum and equipment (Note 3)	37,112,470	20,353,626
Future income tax asset (Note 5)	-	426,082
	\$ 54,778,318	\$ 37,579,446
 Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 6,853,800	\$ 6,876,645
Asset retirement obligations (Note 4)	493,919	286,019
	7,347,719	7,162,664
 Shareholders' Equity		
Share capital (Note 6(b))	51,481,597	30,810,788
Contributed surplus (Note 6(f))	4,217,135	2,787,434
Deficit	(8,268,133)	(3,181,440)
	47,430,599	30,416,782
	\$ 54,778,318	\$ 37,579,446

Note 1 Basis of Presentation and Going Concern

See accompanying notes to the consolidated financial statements

On behalf of the Board:

(signed) "John Rooney"

Director

(signed)"William M. Ford"

Director

Consolidated Statements of Net Loss, Comprehensive Loss, and Deficit
(In United States Dollars)

For the years ended December 31,	2008	2007
Revenues		
Petroleum and natural gas	\$ 3,351,890	\$ 1,380,133
Interest income	285,367	455,208
	<u>3,637,257</u>	<u>1,835,341</u>
Expenses		
Production	768,376	463,797
General and administrative	5,900,307	3,204,050
Depletion, depreciation, amortization and accretion	1,619,327	521,146
Interest	6,797	37,114
	<u>8,294,807</u>	<u>4,226,107</u>
Loss before income taxes	<u>(4,657,550)</u>	<u>(2,390,766)</u>
Income taxes (Note 5)		
Current income taxes	3,055	29,999
Future income taxes	426,081	(643,194)
	<u>429,136</u>	<u>(613,195)</u>
Net loss and comprehensive loss for the year	<u>(5,086,686)</u>	<u>(1,777,571)</u>
Deficit, beginning of year	<u>(3,181,447)</u>	<u>(1,403,876)</u>
Deficit, end of year	<u>\$ (8,268,133)</u>	<u>\$ (3,181,447)</u>
Net loss per share		
- basic and diluted	<u>(0.04)</u>	<u>(0.02)</u>
Weighted average shares outstanding		
- basic and diluted (1)	<u>121,394,067</u>	<u>75,003,890</u>

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

See accompanying notes to the consolidated financial statements

Caza Oil & Gas, Inc.
Consolidated Statements of Cash Flows
(In United States Dollars)

For the years ended December 31, **2008** **2007**

CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:

OPERATING

Net loss for the year	\$(5,086,686)	\$(1,777,571)
Adjustments for items not affecting cash:		
Depletion, depreciation, amortization and accretion	1,619,327	521,146
Stock-based compensation	486,873	363,883
Asset retirement obligations settled	(9,767)	-
Future income tax expense (recovery)	426,081	(647,188)
Changes in non-cash working capital (Note 9 (a))	2,768,432	(760,522)
Cash flow from (used in) operating activities	204,260	(2,300,252)

FINANCING

Proceeds from issuance of shares, net of issue costs	21,386,413	11,887,639
Changes in non-cash working capital (Note 9 (a))	(836,448)	836,448
Cash flow from financing activities	20,549,965	12,724,087

INVESTING

Exploration and development expenditures	(17,811,316)	(11,733,926)
Purchase of equipment	(121,970)	(494,500)
Changes in non-cash working capital (Note 9 (a))	(1,911,701)	1,302,174
Cash flow (used in) investing activities	(19,844,987)	(10,926,252)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS **909,238** **(502,417)**

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR **13,194,589** **13,697,006**

CASH AND CASH EQUIVALENTS, END OF YEAR **\$ 14,103,827** **\$13,194,589**

Supplementary information (Note 9)

See accompanying notes to the consolidated financial statements

1. Basis of Presentation and Going Concern

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

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

The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations, generate sufficient funds therefrom, and continue to obtain capital from investors sufficient to meet its current and future obligations, including \$11.22 million of expenditures related to proved undeveloped reserves (see note 3). During the year ended December 31, 2008, the Company incurred a net loss of \$5.09 million, however, as at December 31, 2008, the Company had a working capital surplus of \$10.81 million (and does not have any debt facilities available). Although management's efforts to raise capital have been successful in the past, there is no certainty that they will be able to do so in the future. If the company is unsuccessful in raising additional capital, the Company may have to sell or farm out certain properties. If the Company cannot sell or farm out certain properties, it will be unable to participate with joint venture partners and may forfeit rights to some of its properties. These financial statements do not reflect the adjustments that would be necessary to the presentation and carrying amounts of the assets and liabilities if the Company were not able to continue operations and these adjustments and reclassifications may be material.

2. Changes in Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Basis of consolidation

The consolidated financial statements include those of the Caza, Caza Petroleum, and Caza Petroleum's wholly owned subsidiaries Caza Operating, LLC, Falcon Bay Sutton County, LLC and Falcon Bay Operating, LLC. All material inter-company transactions have been eliminated.

(b) Financial Instruments

As of January 1, 2008, Caza adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation."

Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The additional disclosure required by this standard are described in Note 11.

Section 3863, "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives. The adoption of this section did not have an impact on the consolidated financial statements. This section and Section 3862, "Financial Instruments – Disclosures" replaced Section 3861, "Financial Instruments – Disclosure and Presentation". The adoption of this new section did not have an impact on the consolidated financial statements.

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

The financial instruments recognized on Caza's balance sheet approximated their estimated fair values, and therefore no further adjustments were required upon adoption of the new sections on January 1, 2008. There were no financial assets on the balance sheet which were designated as available-for-sale. Cash and cash equivalents were classified as held-for-trading, all other financial assets were classified as loans or receivables and are accounted for on an amortized cost basis, and all financial liabilities were classified as other liabilities on January 1, 2008. There have been no changes to these classifications as at December 31, 2008. The fair values of these financial instruments are approximately the same as their carrying values. All transaction costs are expensed.

(c) Comprehensive income

Comprehensive income consists of net income and other comprehensive income (OCI) which includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges.

(d) Cash and cash equivalents

Cash and cash equivalents consists of cash on deposit and money market instruments that are highly liquid having a maturity date of not more than ninety days at the time of purchase.

(e) Joint venture operations

Substantially all of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(f) Property and equipment

The Company follows the full cost method of accounting for oil and natural gas operations whereby all costs relating to the acquisition, exploration and development of oil and natural gas reserves are initially capitalized into a single United States cost centre. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, related production equipment costs, asset retirement and abandonment costs and overhead charges directly related to acquisition, exploration and development activities.

Capitalized costs, excluding costs related to unproven properties, are depleted and depreciated using the unit-of-production method based on estimated proven oil and natural gas reserves before deduction of royalties as determined by independent petroleum engineers. Petroleum and natural gas reserves and production are converted to thousand cubic feet of gas equivalent using a ratio of one barrel of oil to six thousand cubic feet of natural gas.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

Proceeds from the sale of petroleum and natural gas properties will be applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a greater than 20% change in the depletion and depreciation rate.

A limit is placed on the carrying value of the net capitalized costs in each cost centre in order to test impairment. The Company performs this impairment test as at the end of each calendar quarter. An impairment loss exists when the carrying value of a cost centre exceeds the estimated undiscounted future net cash flows associated with the cost centre's proved reserves. If an impairment loss is determined to exist, the costs carried on the balance sheet in excess of the discounted future net cash flows associated with the cost centre's proved plus probable reserves are charged to net income. Reserves are determined pursuant to the Canadian Securities Administrators' National Instrument 51-101 "Standard of Disclosure for Oil and Gas Activities".

Office equipment and furniture is carried at cost and depreciated on a straight line basis over the estimated service lives of five to seven years.

(g) Revenue recognition

Revenue from the sale of oil, gas and liquids is recognized when title passes to the customer based on volume delivered at contractual delivery points and rates. The costs associated with the delivery, including operating and transportation expenses, are recognized in the same period in which the related revenue is earned and recorded.

(h) Future income taxes

The Company follows the tax liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the carrying value and the tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in

which the change is substantively enacted. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

(i) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred or when a reasonable estimate of the fair value can be made, and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the consolidated statement of net loss. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

(j) Foreign currency translation

The Company translates foreign currency denominated monetary assets and liabilities at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at transaction date exchange rates except depletion and depreciation expense, which is translated at the same historical exchange rate as the related assets. Exchange gains or losses are included in the determination of net income.

(k) Stock-based compensation

The Company accounts for stock-based compensation using the fair-value method of accounting for stock options issued to directors, officers and employees using the Black-Scholes option-pricing model. Under this method, the compensation costs attributed to the stock options are measured at the time of grant or issuance and amortized over the vesting period with a corresponding increase to contributed surplus. When stock options are exercised, the associated amounts previously recorded as contributed surplus are reclassified to common share capital. The Company does not incorporate an estimated forfeiture rate for stock options that will not vest but instead accounts for forfeitures as a change in estimate in the period in which they occur.

(l) Per share information

Basic per share amounts are calculated using the total weighted average number of common shares outstanding during the period. Shares outstanding also include common shares issuable upon exchange of Caza Petroleum shares. Diluted per share calculations reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the date of grant of such securities or the beginning of the period. The Company computes diluted earnings per share using the treasury stock method to determine the dilutive effect of securities or other contracts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase common shares of the Company at their average market price for the period. No adjustment to diluted earnings per share or diluted shares outstanding is made if the result of the calculations is anti-dilutive.

(m) Measurement uncertainty

The operations of the Company are complex, and regulations and legislation affecting the Company are continually changing. Although the ultimate impact of these matters on the net income or loss cannot be determined at this time, it could be material for any one quarter or year. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results can differ from those estimates.

Recorded amounts for depletion and depreciation of petroleum and natural gas properties and equipment are based on estimates of oil and natural gas reserves. The ceiling test and impairment calculations are based on estimates of oil and natural gas reserves, future costs required to develop those reserves and the fair value of unproved properties. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the effect on the consolidated financial statements of future periods could be significant.

The asset retirement obligation depends on estimates of current market interest rates, future restoration and reclamation expenditures and the timing of those expenditures. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes of estimates in future periods could be significant.

The consolidated financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners.

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. 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. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes of estimates in future periods could be significant.

The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes of estimates in future periods could be significant.

(n) Capital Disclosures

On January 1, 2008, Caza prospectively adopted Canadian Institute of Chartered Accountants (CICA) Section 1535 *Capital Disclosures* issued by the Canadian Accounting Standards Board (AcSB). This Section establishes standards for disclosing information about an entity's objectives, policies and processes for managing its capital structure. The disclosures have been included in Note 10.

(o) Accounting Changes

On January 1, 2007, Caza adopted CICA Section 1506, "Accounting Changes," which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

(p) General standards of financial statement presentation

As of January 1, 2008, Caza adopted the amended CICA Section 1400, "General Standards of Financial Statement Presentation", which is effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section did not have an impact on the consolidated financial statements.

(q) 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 AcSB confirmed that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Management is currently assessing the impact of the convergence of Canadian GAAP with IFRS on the results of operations, financial position and disclosures.

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 is effective for fiscal years beginning on or after October 1, 2008 and early adoption is 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 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 is currently assessing the impact of the adoption of this section on the results of operations, financial position and disclosures.

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. Caza plans to adopt these standards effective January 1, 2009 and management does not expect the adoption will have a material impact on the results of operations or financial position.

3. Petroleum and Equipment

	2008			2007		
	Cost	Accumulated depletion and depreciation	Net Book Value	Cost	Accumulated depletion and depreciation	Net Book Value
Petroleum and natural gas properties and equipment	\$39,330,883	\$2,681,632	\$36,649,251	\$21,088,518	\$1,200,899	\$19,887,619
Office equipment and furniture	\$718,523	\$255,304	\$463,219	\$596,554	\$130,547	\$466,007
	\$40,049,406	\$2,936,936	\$37,112,470	\$21,685,072	\$1,331,446	\$20,353,626

At December 31, 2008 the cost of petroleum and natural gas properties includes \$10,778,079 (December 31, 2007 - \$8,132,952) relating to unproven properties which have been excluded from costs subject to depletion and depreciation. No events or circumstances suggest that the undeveloped properties, and all associated costs are impaired at December 31, 2008. Future development costs related to proved undeveloped reserves of \$11,224,800 were included in the depletion calculation.

During year ended December 31, 2008, the Company capitalized \$1,186,921 of general and administrative expenses (2007 - \$1,527,940) relating to exploration and development activities of which \$227,219 related to stock based compensation for the 2008 fiscal year (2007 - \$173,551).

The Company performed an impairment test at December 31, 2008 to assess whether the carrying value of its petroleum and natural gas properties exceeds fair value. No impairment was recorded as at December 31, 2008 and 2007. The petroleum and natural gas future prices (adjusted for quality differentials) are based on commodity price forecasts of the Company's independent reserve evaluators as follows:

Year	NYMEX Crude Oil (\$/bbl)	Natural Gas (\$/mmbtu)
2009	57.08	6.85
2010	67.60	7.52
2011	75.58	8.05
2012	84.93	8.86
2013	93.81	9.68
Thereafter (inflation %)	+2.0%/yr	+2.0%/yr

4. Asset Retirement Obligations

The following table presents the reconciliation of the beginning and ending obligations associated with the retirement of oil and natural gas properties:

	<u>2008</u>	<u>2007</u>
Asset retirement obligation, beginning of year	\$ 286,019	\$ 55,706
Obligations incurred	203,405	89,479
Accretion expense	14,262	3,343
Obligations settled	(9,767)	-
Change in estimates	-	137,491
Asset retirement obligation, end of year	<u>\$ 493,919</u>	<u>\$ 286,019</u>

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligations, adjusted for inflation, is estimated at \$740,472 (December 31, 2007 - \$397,700). The obligation was calculated using a credit-adjusted risk free discount rate of 6 percent and an inflation rate of 3 percent. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2010 and 2030.

5. Income Taxes

The following is a reconciliation of income taxes, calculated at the statutory combined federal and provincial income tax rates, to the income tax recovery included in the consolidated statements of net loss.

	<u>2008</u>	<u>2007</u>
	US	US
Loss before taxes	(4,657,550)	(2,390,370)
Income tax (recovery) at statutory rate of 29.5% (2007 - 32.12 %)	(1,373,977)	(767,787)
Difference in statutory tax rates: Canada vs. US	(256,165)	(68,843)
Stock-based compensation	170,406	127,359
Texas franchise tax	-	30,000
Other	(103,787)	66,076
Valuation allowance	1,992,659	-
Provision for (recovery) of income taxes	<u>429,136</u>	<u>(613,195)</u>

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

	2008	2007
Future income tax liability (asset):	US	US
Petroleum and natural gas properties	8,851,811	4,179,031
Asset retirement obligation	(172,872)	(100,107)
Net operating losses carried forward	(10,671,598)	(4,505,005)
	(1,992,659)	(426,081)
Valuation allowance	1,992,659	-
Net future income tax liability (asset)	-	(426,081)
	2008	2007
	CDN	CDN
Share issue costs	(1,043,509)	(1,711,000)
Net operating losses carried forward	(802,527)	(444,440)
	(1,846,036)	(2,155,440)
Valuation allowance	1,846,036	2,155,440
Net future income tax liability (asset)	-	-

The Company has the following losses available to be carried forward:

Expiring at December 31,	Amounts	
	US	Canada
2026	1,484,777	567,469
2027	11,146,427	1,767,789
2028	17,145,928	874,850

6. Share Capital

(a) Authorized
Unlimited number of voting common shares.

(b) Issued

	2008		2007	
	Shares	Amounts	Shares	Amounts
Opening balance common shares	69,319,000	\$ 25,037,117	44,030,000	\$ 13,478,258
2 nd Over-allotment closing (i)	-	-	970,000	344,699
Exercise of exchangeable rights	-	-	1,498,000	51,921
Entitlement shares (ii)	-	-	3,442,000	-
Entitlement shares (ii)	-	-	558,000	-
IPO shares (iii)	-	-	18,821,000	11,162,239
Private placement (v)	50,000,000	21,386,409	-	-
Balance end of year	119,319,000	\$ 46,423,526	69,319,000	\$ 25,037,117
Opening balance exchangeable rights	26,502,000	918,571	28,000,000	970,492
Rights exercised March 8, 2007	-	-	(1,103,200)	(38,237)
Rights exercised April 20, 2007	-	-	(394,800)	(13,684)
Balance end of year	26,502,000	918,571	26,502,000	918,571
Opening balance warrants	25,100,000	4,855,100	21,856,800	4,474,399
2 nd Over-allotment warrants (i)	-	-	485,000	104,275
2 nd Over-allotment broker warrants	-	-	58,200	6,926
Entitlement warrants September 22, 2007 (ii)	-	-	1,721,000	-
Entitlement warrants November 21, 2007 (ii)	-	-	279,000	-
IPO broker warrants (vii)	-	-	700,000	269,500
Expired broker warrants March 22, 2008	(2,400,000)	(285,600)	-	-
Surrendered warrants May 21, 2008 (iv)	(2,200,000)	(430,000)	-	-
Balance end of year (vi)	20,500,000	4,139,500	25,100,000	4,855,100
		\$ 51,481,597		\$ 30,810,788

- (i) On January 17, 2007 the Company completed its second over-allotment closing of 970,000 units. Each unit consisted of one common share, ½ of a warrant (485,000) and one entitlement right.
- (ii) As a part of the initial placement, the Company issued to the purchasers, liquidity entitlements, which provide purchasers the right to receive for no additional consideration additional common shares equal to 10% of the common shares purchased in the initial placement. The Company adjusted the warrants to provide for the right to purchase additional common shares in the amount of 1,721,000 shares on September 20, 2007 and 279,000 shares on November 20, 2007.
- (iii) On December 12, 2007 the Company completed its initial public offering ("IPO") issuing a total of 18,821,000 common shares. The shares were issued at CAD \$0.80 or USD \$0.7926 raising funds of USD \$11,162,239 netted of issuance costs of \$3,484,845.
- (iv) On May 21, 2008, 2,000,000 warrants to purchase 2,200,000 common shares were surrendered.
- (v) The Company issued 50,000,000 common shares in a private placement at \$0.46 (23 pence per common share). Pursuant to this private placement, the Company incurred 1,478,544 of share issuance costs.
- (vi) The weighted average life of the warrants is 1.73 years (December 2007 – 2.49 years) and the weighted average exercise price is \$0.99 (December 2007 - \$0.95).
- (vii) Caza issued 700,000 broker warrants to the selling agents as partial consideration for their services. Each broker warrant entitles the holder to purchase one common share at a price of CDN \$0.80 per share, approximately \$0.79 per share, until December 12, 2009.

(c) Warrants

The following table summarizes the warrants outstanding as at December 31, 2008.

Date of Grant	Number Outstanding	Exercise Price	Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2008
September 22, 2006	16,731,000	1.00	1.73	September 22, 2010	16,731,000
November 20, 2006	2,535,500	1.00	1.89	November 20, 2010	2,535,500
January 17, 2007	533,500	1.00	1.95	December 12, 2010	533,500
December 12, 2007	700,000	0.80	0.95	December 12, 2009	700,000
	20,500,000				20,500,000

(d) Stock options

The maximum number of common shares for which options may be granted, together with shares issuable under any other share compensation arrangement of the Company, is limited to 10% of the total number of outstanding common shares (plus common shares that would be outstanding upon the exercise of all exchangeable rights) at the time of grant of any option. The exercise price of each option may not be less than the fair market value of the Company's common shares on the date of grant. Except as otherwise determined by the Board and subject to the limitation that the stock options may not be exercised later than the expiry date provided in the relevant option agreement but in no event later than 10 years (or such shorter period required by a stock exchange) from their date of grant, options cease to be exercisable: (i) immediately upon a participant's termination by the Company for cause, (ii) 90 days (30 days in the case of a participant engaged in investor relations activities) after a participant's termination from the Company for any other reason except death and (iii) one year after a participant's death. Subject to the Board's sole discretion in modifying the vesting of stock options, stock options will vest, and become exercisable, as to 33⅓% on the first anniversary of the date of grant and 33⅓% on each of the following two anniversaries of the date of grant. All options granted to a participant but not yet vested will vest immediately upon a change of control or upon the Company's termination of a participant's employment without cause. A summary of the Company's stock option plan as at December 31, 2008 and December 31, 2007 and changes during the respective years ended on those dates is presented below.

Stock Options	2008		2007	
	Number of options	Weighted average Exercise price	Number of options	Weighted average exercise price
Beginning of year	6,605,000	\$0.62	-	-
Granted	980,000	0.52	6,605,000	\$0.62
Exercised	-	-	-	-
Forfeited	(1,000,000)	0.59	-	-
End of year	6,585,000	\$0.61	6,605,000	\$0.62
Exercisable, end of year	2,876,667	\$0.51	1,108,333	\$0.50

Date of Grant	Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2008
January 31, 2007	3,025,000	0.50	8.08	January 31, 2017	2,016,667
May 10, 2007	220,000	0.50	8.34	May 10, 2017	73,333
June 11, 2007	20,000	0.50	8.44	June 11, 2017	6,667
December 12, 2007	2,340,000	0.79	8.95	December 12, 2017	780,000
April 7, 2008	500,000	0.59	9.26	April 7, 2018	-
August 11, 2008	480,000	0.44	9.61	August 11, 2018	-
	6,585,000		8.61		2,876,667

On April 7, 2008, 500,000 options were granted at a fair value of \$0.34 per option and on August 11, 2008 480,000 options were granted at a fair value of \$0.26 per option. The fair value of these options was determined using the Black-Sholes model with the following assumptions:

	2008
Dividend yield	Nil
Expected volatility	88.16%
Risk free rate of return	4.00-6.00%
Weighted average life	3 years

(e) Escrowed securities

In accordance with Canadian securities laws requirements and the policies of the TSX, at the time of the Company's initial public offering on December 12, 2007, a total of 20,457,500 common shares owned by management (which reflected 19,880,000 unissued common shares receivable pursuant to management's exchangeable rights) and 25,200,000 common shares owned by non-management parties were placed in escrow pursuant to an escrow agreement. In June 2008 and December 2008, an aggregate of 13,631,800 management shares and 16,800,000 non-management shares were released from escrow, resulting in 6,825,700 management shares and 8,400,000 non-management shares continuing to be held in escrow at December 31, 2008. In addition, 262,500 warrants owned by management that are exercisable for 288,750 common shares, and 9,750,000 warrants owned by non-management parties exercisable for 10,725,000 common shares were similarly placed in escrow. In May 2008, 1,500,000 escrowed warrants were surrendered to the Company. In June 2008 and December 2008, 175,000 management warrants exercisable for 192,500 common shares, and 5,500,000 non-management warrants exercisable for 6,050,000 common shares were released from escrow. At December 31, 2008, 87,500 management warrants exercisable for 96,250 common shares and 2,750,000 non-management warrants exercisable for 3,025,000 common shares remained in escrow. All shares and warrants remaining in escrow will be released in June 2009.

(f) Contributed surplus

The following table presents the changes in contributed surplus:

	2008	2007
Balance, beginning of year	\$ 2,787,434	\$ 2,250,000
Expired broker warrants	285,600	-
Surrendered warrants (Note 6(b)(v))	430,000	-
Stock based compensation (i)	714,101	537,434
Balance, end of year	\$ 4,217,135	\$ 2,787,434

(i) During the year ended December 31, 2008, \$486,873 of the stock based compensation expense was recognized in the statement of net loss (2007 - \$363,883) and \$227,219 was capitalized (2007 - \$173,551).

7 Related Party Transactions

- (a) An Officer of Caza Petroleum, prior to becoming an employee, was a consultant to Caza Petroleum and as a consultant was eligible to receive a 2% carried working interest (subject to proportionate reduction based on the Company's working interest) to casing point in the initial test well in certain prospects. The applicable prospects are the Bongo, Puku, Eland and Sable properties. As a result of these carried working interests, the officer of Caza Petroleum has working interests in certain of these properties and as at December 31, 2008, \$9,704 of joint venture receivables (netted of suspended revenues) are owed to the Company. Since becoming an employee this individual is no longer eligible to participate for additional interests beyond those described.
- (b) In February 2008, Caza Petroleum entered into a farm out agreement with Singular Oil & Gas Sands, LLC ("Singular") to participate in the drilling of the Jonell Cerny well in Wharton County, Texas. Under the terms of that agreement, Singular paid 13.33% of the drilling costs through completion of the Jonell Cerny well to earn a 10.00% interest in the property thereafter. This participation was in the normal course of Caza's business and on the same terms and conditions to those of other joint venture partners. Singular owes the Company \$25,956 in joint venture partner receivables as at December 31, 2008. Singular is a related party as it is a company under common control with Zoneplan Limited, which is a significant shareholder of Caza.

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

8. Commitments and Contingencies

- (a) As of December 31, 2008, the Company is committed under operating leases for its offices and corporate apartment. The Company is committed to the following aggregate minimum lease payments which are shown below:

2009	\$	233,660
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- (b) The Company received a total of \$2,564,962 in 2004, 2005 and 2006 under an agreement whereby the funds received are only repayable from production from three wells on the Aldwell Ranch project at a rate of 47.281% of the revenues until repayment of the project financing and 40.787% of the revenues thereafter. The repayment obligation ceases upon ninety percent

(90%) of the then current estimated recoverable reserves being produced. This has been accounted for as a net profits interest and has reduced the carrying amount of the full cost center.

9. Supplementary Information

(a) net change in non-cash working capital

	2008	2007
Provided by (used in)		
Accounts receivable	(76,087)	(1,115,320)
Prepaid and other	119,215	(211,480)
Accounts payable and accrued liabilities	(22,845)	2,704,100
	20,283	1,378,100
Summary of changes		
Operating	2,768,432	(760,522)
Financing	(836,448)	836,448
Investing	(1,911,701)	1,302,174
	20,283	1,378,100

(b) supplementary cash flow information

	2008	2007
Interest paid	6,797	37,114
Interest received	285,367	455,208
Cash taxes paid	14,826	34,389

(c) cash and cash equivalents

	2008	2007
Cash on deposit	1,129,745	4,237,394
Money market instruments	12,974,082	8,957,195
Cash and cash equivalents	14,103,827	13,194,589

The money market instruments bear interest at a rate of 0.089% as at December 31, 2008 (December 31, 2007 – 4.82%). Cash on deposit is held with Wells Fargo Bank Texas and the money market account is a fund managed by Wells Fargo Brokerage Services, LLC investing in U.S. Treasury Bill securities.

10. Capital Risk Management

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

<i>As at</i>	<i>2008</i>	<i>2007</i>
Cash and cash equivalents	\$ 14,103,827	\$ 13,194,589
Other current assets	3,562,021	3,605,149
Accounts payable and accrued liabilities	(6,853,800)	(6,876,645)
Net working capital	\$ 10,812,048	\$ 9,923,093
Shareholders' Equity	\$ 47,430,599	\$ 30,416,782
Total	\$ 58,242,647	\$ 40,339,875

The Company has evaluated its net working capital balance as at December 31, 2008. Due to long lead times on several of the Company's exploration and development projects, from time to time the Company secures capital to fund its investments in oil and gas exploration projects in advance which has resulted in a net working capital balance. As exploration and development projects progress the Company expects the net working capital balance to significantly decrease from current levels, and additional capital may be required to fund additional projects. If the Company is unsuccessful in raising additional capital, the Company may have to sell or farm out certain properties. If the Company cannot sell or farm out certain properties, it will be unable to participate with joint venture partners and may forfeit rights to some of its properties.

11. Financial Instruments

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

(a) Commodity price risk

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

(b) Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A majority of the Company's financial assets at the balance sheet date arise from natural gas

liquids and natural gas sales and the Company's accounts receivable that are with these customers and joint venture participants in the oil and natural gas industry. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company's natural gas and condensate production is sold to large marketing companies. Typically, the Company's maximum credit exposure to customers is revenue from two months of sales. During the year ended December 31, 2008, the Company sold 90% (December 31, 2007 – 95%) of its natural gas and condensates to a single purchaser. These sales were conducted on transaction terms that are typical for the sale of natural gas and condensates in the United States. In addition, when joint operations are conducted on behalf of a joint venture partner relating to capital expenditures, costs of such operations are paid for in advance to the Company by way of a cash call by the partner of the operation being conducted.

Caza management assesses quarterly if there should be any impairment of the financial assets of the Company. At December 31, 2008, the Company had overdue accounts receivable (netted of suspended revenues) from certain joint interest partners of \$59,624 which were outstanding for greater than 60 days and \$553,615 that were outstanding for greater than 90 days. During the year ended December 31, 2008, there was no impairment required on any of the financial assets of the Company. At December 31, 2008, the Company's two largest joint venture partners represented approximately 21% and 15% of the Company's receivable balance respectively (December 31, 2007 - 26% and 11% respectively). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of cash and cash equivalents and accounts receivable.

(c) Foreign Currency Exchange Risk

The Company is exposed to foreign currency exchange fluctuations, as certain general and administrative expenses are 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, 2008, the Company considers this risk to be relatively limited and not material; therefore it does not hedge its foreign exchange risk.

(d) Fair Value of Financial Instruments

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

All financial assets (except for cash and cash equivalents which are classified as held for trading), are classified as either loans or receivables and are accounted for on an amortized cost basis. All financial liabilities are classified as other liabilities. There are no financial assets on the balance sheet that have been designated as available-for-sale. There have been no changes to the aforementioned classifications during the year ended December 31, 2008.

(e) Liquidity Risk

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

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

The Company's operating cash requirements including amounts projected to complete the Company's existing capital expenditure program are continuously monitored and adjusted as input variables change. These variables include but are not limited to, natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to

conduct equity issues or obtain project debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses. The financial liabilities as at December 31, 2008 that are subject to liquidity risk are accounts payable and accrued liabilities. The contractual maturity of these financial liabilities is generally the following sixty days from the receipt of the invoices for goods of services and can be up to the following next six months. Management believes that the Company's current working capital will be adequate to settle these financial liabilities as they become due.

(f) Concentration Risk

The Company holds substantially all of its cash and cash equivalents at one financial institution.

Annual Report and AGM:

The annual report will be available on the Company's website, www.cazapetro.com, and posted to shareholders shortly. The annual report will be accompanied by an information circular and a notice of the annual general meeting of the company which will be held at Caza's office located at 2002 Timberloch Drive, Suite 2002, The Woodlands, Texas 77380.

Appendix – Glossary of Abbreviations:

In this announcement and the Annual Information Form, the abbreviations set forth below have the following meanings:

bbbl	one barrel, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons	Mcf/d	one thousand cubic feet per day
bbbl/d	barrels per day	Mcfe	one thousand cubic feet of natural gas equivalent derived by converting crude oil to natural gas in the ratio of one barrel of oil into six thousand cubic feet of natural gas
Bcf	billion cubic feet		
Bcfe	billion cubic feet equivalent		
boe	barrels of crude oil equivalent derived by converting natural gas to crude oil in the ratio of six thousand cubic feet of natural gas to one barrel of crude oil	Mcfe/d	one thousand cubic feet of natural gas equivalent per day
		MMboe	one million barrels of crude oil equivalent
boe/d	barrels of crude equivalent per day	MMbtu	million British thermal units
btu	British thermal units	MMcf	one million cubic feet of natural gas
Mbbbl	one thousand barrels	MMcf/d	one million cubic feet per day
Mboe	one thousand barrels of crude oil equivalent	MMcfe	one million of cubic feet equivalent
Mcf	one thousand cubic feet of natural gas	Psi	pounds per square inch
		WTI	West Texas Intermediate

Boe or Mcfe may be misleading, particularly if used in isolation. A boe conversion of 6 Mcf: 1 bbl or a Mcfe conversion ratio of 1 bbl : 6 Mcf 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.