

March 29, 2010

Caza Oil & Gas, Inc.: ANNOUNCES RESULTS FOR THE YEAR ENDED DECEMBER 31, 2009

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

**Highlights of 2009 include:**

- During 2009 Caza focused on its oil exploration projects in response to low natural gas prices;
- Four wells drilled under agreement with Endeavour International Corporation (“Endeavour”) at nominal cost to Caza (see “Recent Developments” below);
- Production volumes increased 28% in period but revenues fell 27% due to low gas prices;
- Net present value of future net revenue attributable to proved reserves of US\$17.9 million and proved plus probable reserves of US\$76.1 million as estimated by Netherland, Sewell & Associates (before taxes and discounted 10%) at 31 December 2009;
- Cash preserved through farm out arrangements and cost savings;
- Cash and cash equivalents at 31 December 2009 of \$9,268,547 (2008 - \$14,103,827);
- Net Working Capital of \$8,376,463 (2008-\$10,812,048) at 31 December 2009.

W. Michael Ford, Chief Executive Officer commented:

“Caza’s operations in the period were primarily focused on its activities in the Abo/Wolfcamp horizontal oil play in New Mexico, USA, where four wells were drilled under the Company’s agreement with Endeavour. Under the Endeavour arrangement Caza had significant down side protection which enabled the Company to explore while preserving capital.

Caza increased its production volumes by 28% during the year. The net present values of our proved and proved plus probable reserves are estimated to be US\$17.9 million and US\$76.1 million respectively. Caza’s cash and cash equivalents balance as of December 31, 2009, was approximately US\$9.3 million, and the Company plans to deploy a significant portion of these funds on drilling. We believe that with our cash reserves, Caza is well placed to execute a strategy of revenue and reserves growth.

Accordingly, the Company is again focused on high impact projects in Texas and Louisiana, generated from its extensive 3-D seismic library, and is currently drilling the Matthys-McMillan GU #2 well in the Wharton West Field. Subject to a positive outcome on this well, Caza will continue developing its position in the field. Approximately 2.2 miles south of the Matthys-McMillan property, we have staked the test well on the Bongo prospect, which is planned to commence drilling in June, subject to partner approvals. Management believes that this prospect could yield significant reserves and looks forward to drilling the test well.

Subject to farm out discussions, Caza also expects to drill at least two tests in Louisiana, one further test in Texas and one test on its Wolfberry position in the Permian basin during 2010.”

Copies of the Company's financial statements for the year ended December 31, 2009, the accompanying management's discussion and analysis and the Company's Annual Information Form for the year ended December 31, 2009 (which contains further information about the Company, its

principal properties and its crude oil and natural gas reserves), will be available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.cazapetro.com](http://www.cazapetro.com).

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In accordance with AIM Rules - Guidance Note for Mining, Oil and Gas Companies, the information contained in this announcement has been reviewed and approved by Anthony B. Sam, Vice President, Operations of Caza who is a Petroleum Engineer and a member of The Society of Petroleum Engineers. Neither the Toronto Stock Exchange nor AIM has either approved or disapproved the information contained herein.

#### Reserve Data:

Caza reported a decrease in proved (1P) reserves at year end 2009 to 4,880.7 MMcfe or a decrease of 27.6%; proved plus probable (2P) reserves decreased at year end 2009 to 26,678.1 MMcfe or a decrease of 5.1%; proved plus probable plus possible (3P) reserves increased at year end 2009 to 93,617.7 MMcfe or an increase of 2.6% (as depicted in the table below).

	2009			2008		
	Mbbl	MMcf	MMcfe	Mbbl	MMcf	MMcfe
Proved Developed						
Producing	61.0	1,728.5	2,094.5	46.3	1,833.9	2,111.7
Non Producing	17.5	214.0	319.0	105.2	258.1	889.3
Undeveloped	1.9	2,455.8	2,467.2	118.9	3,025.8	3,739.2
Total Proved (1P)	80.4	4,398.3	4,880.7	270.4	5,117.8	6,740.2
Probable	903.4	16,377.0	21,797.4	745.7	16,903.1	21,377.3
Total Proved + Probable (2P)	983.9	20,775.3	26,678.1	1,016.1	22,020.9	28,117.5
Possible	1,971.6	55,110.0	66,939.6	1,833.0	52,137.6	63,135.6
Proved + Probable + Possible (3P)	2,955.5	75,885.3	93,617.7	2,849.1	74,158.5	91,253.1

Present value cash flows of net proved and probable reserves as at December 31, 2009:

Present value cash flow, net proved plus probable reserves	PV 10% before income taxes (US\$ millions)	PV 10% after income taxes (US\$ millions)
Forecast price and cost assumptions	76,054.3	49,455.6

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](http://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. as of December 31, 2009, and entitled 12/31/09 year end reserve report.

## Highlights-Audited

(in United States dollars)

Year Ending December 31,	2009	2008	% change
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### Financial

Natural gas, natural gas liquids and crude oil revenue	2,456,662	3,351,890	-27
Net income (loss)	(3,720,802)	(5,086,686)	-27
Per share - basic and diluted	(0.03)	(0.04)	
Capital expenditures (net)	1,892,560	17,933,286	-89

### Operational

Sales volumes

Natural gas (Mcf/d)	993	935	6
Natural gas liquids and crude oil (bbls/d)	54	15	260
Combined (Mcf/d)	1,316	1,025	28

Operating netbacks (\$US/Mcfe)

Average selling prices	5.11	8.96	-43
Production expenses	1.41	1.29	9
Severance taxes	0.36	0.63	-43
Transportation expenses	0.11	0.14	-19
Operating netback	3.23	6.90	-53

## Share Data

Weighted average outstanding (including Exchangeable Shares of Caza Petroleum )	145,821,000	121,394,067	20
Equity outstanding - end of period			
Common shares	119,319,000	119,319,000	-
Warrants	19,800,000	20,500,000	-3
Stock options	5,371,667	6,585,000	-18

## About Caza

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

## Recent Developments

The Company commenced drilling operations on the Matthys-McMillan Gas Unit #2 development well located in the Wharton West Wilcox Field on February 25, 2010. The well is planned to be drilled to a total depth of 15,200 feet and is a direct offset to Caza's Matthys-McMillan Gas Unit #1 well. The well is expected to take 60 days to drill and an additional 30 days to complete. Caza is the operator of this well and has a 19.6% working interest and a corresponding 14.4% Net Revenue Interest.

Caza has recently leased 550 acres covering its Arran Property in the Bol Mex trend in South Louisiana. The Company currently has a 50% working interest (37.5% Net Revenue Interest) in the property, but is currently in discussions to farm out a portion of its interest in this property and plans to drill the property, as operator, in 2010.

Endeavour has determined for strategic reasons that it will not participate in any of The Company's wells in Texas and Louisiana and has elected to terminate the Participation Agreement between Endeavour and Caza in accordance with its terms effective April 8, 2010.

Effective April 1, 2010, Michael Ford, the Company's Chief Executive Officer, will assume overall responsibility for the management of the Company on a day-to-day basis, and John McGoldrick, the Company's Executive Chairman, will step down from his full-time management position. However, the Company is pleased to announce that Mr. McGoldrick will remain Chairman of the Caza Board of Directors, and the Company will continue to have access to his services on a consulting basis.

[www.cazapetro.com](http://www.cazapetro.com)

## ADVISORY STATEMENT

Information in this news release that is not current or historical factual information may constitute forward-looking statements within the meaning of securities laws. Such information is often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate",

“expect”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar expressions. Information regarding future exploration, development and drilling activities, joint venture relationships, ability to generate projects, strategic acquisitions and Caza’s ability to execute its strategic plan contained in this news release constitutes forward-looking information within the meaning of securities laws. Statements relating to “reserves” 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 profitably produced in the future.

Implicit in this information, particularly in respect of production are assumptions regarding projected revenue and expenses, the performance of wells and the ability to secure joint venture partners and internally generate projects. These assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operating results and economic performance of the Company are subject to a number of risks and uncertainties, including general mechanical, economic, market and business conditions and could differ materially from what is currently expected as set out above. Production disclosed in this press release is at December 31, 2009. Future production may vary, perhaps materially.

For more exhaustive information on these risks and uncertainties you should refer to the Company’s most recently filed annual information form which will be available at [www.sedar.com](http://www.sedar.com) on March 30, 2010. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. While we may elect to, we are under no obligation and do not undertake to update this information at any particular time, except as required by applicable securities laws.

The term “Mcf” may be misleading, particularly if used in isolation. An Mcf conversion of one barrel per six thousand cubic feet (1 Bbl: 6 Mcf) of oil to 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.

Statements in this news release relating to net present value or future net revenue do not represent fair market value.

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## Auditors' Report

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

We have audited the consolidated balance sheets of Caza Oil & Gas, Inc. as at December 31, 2009 and 2008, 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, 2009 and 2008 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 23, 2010

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

As at December 31,	2009	2008
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (Note 9)	\$ 9,268,547	\$ 14,103,827
Accounts receivable and joint venture receivables	3,973,085	3,346,720
Prepaid and other	278,914	215,301
	13,520,546	17,665,848
<b>Petroleum and equipment (Note 3)</b>	<b>36,201,223</b>	<b>37,112,470</b>
	<b>\$ 49,721,769</b>	<b>\$ 54,778,318</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 5,144,083	\$ 6,853,800
<b>Asset retirement obligations (Note 4)</b>	<b>549,450</b>	<b>493,919</b>
	5,693,533	7,347,719
<b>Shareholders' Equity</b>		
Share capital (Note 6(b))	51,212,097	51,481,597
Contributed surplus (Note 6(e))	4,805,074	4,217,135
Deficit	(11,988,935)	(8,268,133)
	<b>44,028,236</b>	<b>47,430,599</b>
	<b>\$ 49,721,769</b>	<b>\$ 54,778,318</b>

*See accompanying notes to the consolidated financial statements*

On behalf of the Board:

(signed) "John Rooney"

Director

(signed)"William M. Ford"

Director

**Caza Oil & Gas, Inc.**  
**Consolidated Statements of Net Loss, Comprehensive Loss, and Deficit**  
(In United States Dollars)

For the years ended December 31,	2009	2008
<b>Revenues</b>		
Petroleum and natural gas	\$ 2,456,662	\$ 3,351,890
Interest income	3,258	285,367
	<u>2,459,920</u>	<u>3,637,257</u>
<b>Expenses</b>		
Production	902,530	768,376
General and administrative	2,448,553	5,900,307
Depletion, depreciation, amortization and accretion	2,824,799	1,619,327
Interest	4,840	6,797
	<u>6,180,722</u>	<u>8,294,807</u>
<b>Loss before income taxes</b>	<u>(3,720,802)</u>	<u>(4,657,550)</u>
<b>Income taxes (Note 5)</b>		
Current income taxes	-	3,055
Future income taxes	-	426,081
	<u>-</u>	<u>429,136</u>
<b>Net loss and comprehensive loss for the year</b>	<u>(3,720,802)</u>	<u>(5,086,686)</u>
<b>Deficit, beginning of year</b>	<u>(8,268,133)</u>	<u>(3,181,447)</u>
<b>Deficit, end of year</b>	<u>\$ (11,988,935)</u>	<u>\$ (8,268,133)</u>
Net loss per share		
- basic and diluted	<u>(0.03)</u>	<u>(0.04)</u>
Weighted average shares outstanding		
- basic and diluted (1)	<u>145,821,000</u>	<u>121,394,067</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)

<b>For the years ended December 31,</b>	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net loss for the year	\$(3,720,802)	\$(5,086,686)
Adjustments for items not affecting cash:		
Depletion, depreciation, amortization and accretion	2,824,799	1,619,327
Stock-based compensation	352,978	486,873
Asset retirement obligations settled	-	(9,767)
Future income tax expense	-	426,081
Changes in non-cash working capital (Note 9 (a))	(2,469,069)	2,768,432
Cash flow from (used in) operating activities	<u>(3,012,094)</u>	<u>204,260</u>
<b>FINANCING</b>		
Proceeds from issuance of shares, net of issue costs	-	21,386,413
Changes in non-cash working capital (Note 9 (a))	-	(836,448)
Cash flow from financing activities	<u>-</u>	<u>20,549,965</u>
<b>INVESTING</b>		
Exploration and development expenditures	(2,998,099)	(17,811,316)
Purchase of equipment	(11,685)	(121,970)
Leasehold reimbursement	1,117,224	-
Changes in non-cash working capital (Note 9 (a))	69,374	(1,911,701)
Cash flow (used in) investing activities	<u>(1,823,186)</u>	<u>(19,844,987)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,835,280)</b>	<b>909,238</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>14,103,827</u></b>	<b><u>13,194,589</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 9,268,547</u></b>	<b><u>\$ 14,103,827</u></b>

*Supplementary information (Note 9)*

*See accompanying notes to the consolidated financial statements*

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## 1. Basis of Presentation

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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.

In 2008 and continuing in 2009, the global credit crisis, the volatility in the price of oil, the recession in United States and the slowdown of economic growth in the rest of the world has created a substantially more volatile business environment. These conditions will limit certain of the Company’s previously planned business development activities and it will continue to provide risk for the Company’s future.

The Company’s ability to continue as a going concern is dependent upon its ability to attain profitable operations, generate sufficient funds there from, and continue to obtain capital from investors sufficient to meet its current and future obligations, including \$4.5 million of expenditures related to proved undeveloped reserves (see note 3). During the year ended December 31, 2009, the Company incurred a net loss of \$3.72 million, however, as at December 31, 2009; the Company had a working capital surplus of \$8.38 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. If the going concern basis is not appropriate, adjustments may be necessary to the carrying amounts and classification of the Company’s assets and liabilities. The accompanying financial statements do not include any adjustments that might result if the Company is unable to continue as a going concern. Although management’s efforts to raise capital and monetize assets have been successful in the past, there is no certainty that they will be able to do so in the future.

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## 2. Changes in Significant Accounting Policies

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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

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. 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. 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) Current Accounting Changes

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 1, 2009, management adopted the CICA's EIC-173, Credit Risk and the Fair Value of Financials Assets and Financial Liabilities. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption if this EIC had no impact on these financial statements.

In June 2009, the CICA amended Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company adopted this standard prospectively effective December 31, 2009, resulting in increased note disclosures for financial instruments.

In July 2009, the CICA amended section 3855, "Financial Instruments – Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Company adopted this standard prospectively effective December 31, 2009. The adoption of this section had no effect on the results of operations or financial position of the Company.

(o) Future 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 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.

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.

### 3. Petroleum and Equipment

	2009			2008		
	Cost	Accumulated depletion and depreciation	Net Book Value	Cost	Accumulated depletion and depreciation	Net Book Value
Petroleum and natural gas properties and equipment	\$41,208,133	\$5,349,421	\$35,858,712	\$39,330,883	\$2,681,632	\$36,649,251
Office equipment and furniture	\$730,209	\$387,698	\$342,511	\$718,523	\$255,304	\$463,219
	<b>\$41,938,342</b>	<b>\$5,737,119</b>	<b>\$36,201,223</b>	\$40,049,406	\$2,936,936	\$37,112,470

At December 31, 2009 the cost of petroleum and natural gas properties includes \$11,662,047 (December 31, 2008 - \$10,778,079) 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, 2009. Future development costs related to proved undeveloped reserves of \$4,504,300 were included in the depletion calculation (2008 - \$11,224,800).

During the year ended December 31, 2009, the Company received reimbursements of prior period costs as a result of joint exploration agreements with other companies. This resulted in a decrease of \$1,117,224 to the petroleum and natural gas properties and equipment. In addition the Company increased its working interest in certain oil and gas properties in consideration for the settlement of certain accounts receivable of the Company.

During year ended December 31, 2009, the Company capitalized \$317,409 of general and administrative expenses (2008 - \$1,186,921) relating to exploration and development activities of which \$162,337 related to stock based compensation for the 2009 fiscal year (2008 - \$227,219).

The Company performed an impairment test at December 31, 2009 to assess whether the carrying value of its petroleum and natural gas properties exceeds fair value. No impairment was required to be recorded as at December 31, 2009 and 2008. The petroleum and natural gas future prices (adjusted for quality differentials) are based on commodity price forecasts of the Company's independent reserve evaluators for 2009 as follows:

Year	NYMEX Crude Oil <sup>(1)</sup> (\$/bbl)	Natural Gas <sup>(1)</sup> (\$/mmbtu)
2010	78.54	5.88
2011	83.17	6.76
2012	86.54	7.03
2013	90.18	7.40
2014	94.18	7.80
Thereafter (inflation %)	+2.0%/yr	+2.0%/yr

<sup>(1)</sup> Prices used in the impairment test were adjusted for commodity price differentials specific to the Company.

#### 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:

	2009	2008
Asset retirement obligations, beginning of year	\$ 493,919	\$ 286,019
Obligations incurred	30,915	203,405
Accretion expense	24,616	14,262
Obligations settled	-	(9,767)
Asset retirement obligations, end of year	\$ 549,450	\$ 493,919

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 \$795,234 ( 2008 - \$740,472). 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 2011 and 2040.

#### 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.

	2009	2008
<b>Loss before taxes</b>	<b>(3,720,803)</b>	(4,657,550)
Income tax (recovery) at statutory rate of 29.0% (2008 – 29.5 %)	(1,079,033)	(1,373,977)
Difference in statutory tax rates: Canada vs. US	(223,248)	(256,165)
Stock-based compensation	123,542	170,406
Texas franchise tax	-	-
Other	94,943	(103,787)
Valuation allowance	1,083,796	1,992,659
Provision for (recovery) of income taxes	-	429,136

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:

	2009	2008
<b>United States:</b>		
<b>Future income tax liability (asset):</b>		
Petroleum and natural gas properties	8,132,165	8,851,811
Asset retirement obligations	(192,308)	(172,872)
Net operating losses carried forward	(11,016,312)	(10,671,598)
	(3,076,455)	(1,992,659)
<b>Valuation allowance</b>	<b>3,076,455</b>	1,992,659
<b>Net future income tax liability (asset)</b>	<b>-</b>	<b>-</b>
<hr/>		
	2009	2008
<b>Canada:</b>		
	CDN	CDN
Share issue costs	(471,033)	(729,091)
Net operating losses carried forward	(770,435)	(485,400)
	(1,241,468)	(1,214,491)
<b>Valuation allowance</b>	<b>1,241,468</b>	1,214,491
<b>Net future income tax liability (asset)</b>	<b>-</b>	<b>-</b>

The Company has the following losses available to be carried forward for Caza's US and Canadian entities:

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

## 6. Share Capital

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

- (b) Issued

	2009		2008	
	Shares	Amounts	Shares	Amounts
<b>Opening balance common shares</b>	<b>119,319,000</b>	<b>\$ 46,423,526</b>	69,319,000	\$ 25,037,117
Private placement (i)	-	-	50,000,000	21,386,409
<b>Balance end of year</b>	<b>119,319,000</b>	<b>\$ 46,423,526</b>	119,319,000	\$ 46,423,526
<b>Opening balance exchangeable rights</b>	<b>26,502,000</b>	<b>918,571</b>	26,502,000	918,571
<b>Balance end of year</b>	<b>26,502,000</b>	<b>918,571</b>	26,502,000	918,571
<b>Opening balance warrants</b>	<b>20,500,000</b>	<b>4,139,500</b>	25,100,000	4,855,100
Expired IPO broker warrants (ii)	(700,000)	(269,500)	-	-
Expired broker warrants March 22, 2008	-	-	(2,400,000)	(285,600)
Surrendered warrants May 21, 2008 (iii)	-	-	(2,200,000)	(430,000)
<b>Balance end of year (iv)</b>	<b>19,800,000</b>	<b>3,870,000</b>	20,500,000	4,139,500
		<b>\$ 51,212,097</b>		\$ 51,481,597

- (i) 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.
- (ii) 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, expired on December 12, 2009.
- (iii) On May 21, 2008, 2,000,000 warrants to purchase 2,200,000 common shares were surrendered.
- (iv) 18,000,000 warrants for the purchase of 19,800,000 common shares are outstanding at December 31, 2009. The weighted average life of the warrants is 0.73 years (2008 – 1.73 years) and the weighted average exercise price is \$0.97 (December 2008 - \$0.99).

- (c) Warrants

The following table summarizes the warrants outstanding as at December 31, 2009.

Date of Grant	Number Outstanding	Exercise Price	Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2009
September 22, 2006	16,731,000	1.00	0.73	September 22, 2010	16,731,000
November 20, 2006	2,535,500	1.00	0.89	November 20, 2010	2,535,500
January 17, 2007	533,500	1.00	0.95	December 12, 2010	533,500
	19,800,000				19,800,000

- (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, 2009 and 2008 along with changes during the respective years ended on those dates is presented below.

Stock Options	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning of year	6,585,000	\$0.61	6,605,000	\$0.62
Granted	-	-	980,000	0.52
Forfeited	(1,213,333)	0.55	(1,000,000)	0.59
End of year	5,371,667	\$0.62	6,585,000	\$0.61
Exercisable, end of year	3,931,667	\$0.59	2,876,667	\$0.51

Date of Grant	Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life	Date of Expiry	Number Exercisable December 31, 2008
January 31, 2007	2,025,000	0.50	7.09	January 31, 2017	2,025,000
May 10, 2007	220,000	0.50	7.34	May 10, 2017	146,667
June 11, 2007	20,000	0.50	7.44	June 11, 2017	13,333
December 12, 2007	2,140,000	0.79	7.95	December 12, 2017	1,426,667
April 7, 2008	500,000	0.59	8.27	April 7, 2018	166,667
August 11, 2008	466,667	0.44	8.61	August 11, 2018	153,333
	5,371,667		7.69		3,931,667

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 to 6.00%
Weighted average life	3 years

(e) Contributed surplus

The following table presents the changes in contributed surplus:

	2009	2008
Balance, beginning of year	\$ 4,217,135	\$ 2,787,434
Expired broker warrants	269,500	285,600
Surrendered warrants (Note 6(b)(v))	-	430,000
Forfeited stock options	(196,875)	-
Stock based compensation (i)	515,314	714,101
Balance, end of year	\$ 4,805,074	\$ 4,217,135

(i) During the year ended December 31, 2009, \$352,978 of the stock based compensation expense was recognized in the statement of net loss (2008 - \$486,873) and \$162,336 was capitalized (2008 - \$227,219). During the year ended December 31, 2009, stock options in the amount of \$196,875 were forfeited.

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## 7. Related Party Transactions

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The aggregate amount of expenditures made to related parties:

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 \$7,819 in joint venture partner receivables as at December 31, 2009. 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.

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## 8. Commitments and Contingencies

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(a) As of December 31, 2009, 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:

2010	\$	239,482
2011	\$	148,582
2012	\$	148,582

(b) The Company received a total of \$2,564,962 prior to 2007 under an agreement whereby the funds received are only repayable from production from three wells on the Aldwell Ranch project at a rate of 47.281% of the revenues until repayment of the project financing and 40.787% of the revenues thereafter. The repayment obligation ceases upon ninety percent (90%) of the then current estimated recoverable reserves being produced. This has been accounted for as a net profits interest and has reduced the carrying amount of the full cost center.

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## 9. Supplementary Information

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(a) *net change in non-cash working capital*

	2009	2008
<b><u>Provided by (used in)</u></b>		
Accounts receivable	\$ (626,365)	\$ (76,087)
Prepaid and other	(63,613)	119,215
Accounts payable and accrued liabilities	(1,709,717)	(22,845)
	<b><u>\$ (2,399,695)</u></b>	<b><u>\$ 20,283</u></b>
<b>Summary of changes</b>		
Operating	\$ (2,469,069)	\$ 2,768,432
Financing	-	(836,448)
Investing	69,374	(1,911,701)
	<b><u>\$ (2,399,695)</u></b>	<b><u>\$ 20,283</u></b>

(b) supplementary cash flow information

	2009	2008
Interest paid	\$ 4,840	\$ 6,797
Interest received	3,258	285,367
Cash taxes paid	-	14,826

(c) cash and cash equivalents

	2009	2008
Cash on deposit	\$ 1,991,207	\$ 1,129,745
Money market instruments	7,277,340	12,974,082
Cash and cash equivalents	\$ 9,268,547	\$ 14,103,827

The money market instruments bear interest at a rate of 0.0099% as at December 31, 2009 (December 31, 2008 – 0.089%). 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.

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## 10. Capital Risk Management

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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>	2009	2008
Cash and cash equivalents	\$ 9,268,547	\$ 14,103,827
Other current assets	4,251,999	3,562,021
Accounts payable and accrued liabilities	(5,144,083)	(6,853,800)
Net working capital	\$ 8,376,463	\$ 10,812,048
Shareholders' Equity	\$ 44,028,236	\$ 47,430,599
Total	\$ 52,404,699	\$ 58,242,647

The Company has evaluated its net working capital balance as at December 31, 2009. 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.

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## 11. Financial Instruments

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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, 2009, the Company sold 66% (December 31, 2008 – 90%) 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, 2009, the Company had overdue accounts receivable from certain joint interest partners of \$13,464 which were outstanding for greater than 60 days and \$97,150 that were outstanding for greater than 90 days. During the year ended December 31, 2009, there was no impairment required on any of the financial assets of the Company. At December 31, 2009, the Company's two largest joint venture partners represented approximately 61% and 11% of the Company's receivable balance respectively (December 31, 2008 - 21% and 15% respectively). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of cash and cash equivalents and accounts receivable.

(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, 2009, 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.

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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, 2009.

(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, 2009 that are subject to liquidity risk are accounts payable and accrued liabilities. The contractual maturity of these financial liabilities is generally the following sixty days from the receipt of the invoices for goods 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](http://www.cazapetro.com), and posted to shareholders shortly. The annual report will be accompanied by a notice of the annual general meeting of the company which will be held at 10:00 AM CDT on Tuesday, June 22, 2010, at Caza's office located at 10077 Grogan's Mill Road, Suite 200, 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	Mcf/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
Mbbl	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.