

Caza Oil & Gas Announces Second Quarter Results and Provides Operational Update

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HOUSTON, TEXAS--(Marketwired - Aug 14, 2014) - Caza Oil & Gas, Inc. ("Caza" or the "Company") (TSX:CAZ)(AIM:CAZA) is pleased to provide its unaudited financial and operational results for the three-months ended June 30, 2014.

Unaudited Second Quarter Financial Results

- Caza's revenues from oil and natural gas sales increased 489% to US\$6,286,049 for the three-month period ended June 30, 2014, from US\$1,067,991 for the comparative period in 2013. This also represents a quarter-on-quarter increase of 37% compared to US\$4,591,507 in Q1 2014.
- Adjusted EBITDA increased to US\$3,269,495 for the three-month period ended June 30, 2014, as compared to an adjusted EBITDA loss of (US\$824,891) for the comparative period in 2013. This also represents a quarter-on-quarter increase of 65% compared to US\$2,139,210 in Q1 2014.
- Caza's oil and natural gas liquids (NGL) production increased 495% to 65,823 bbls for the three-month period ended June 30, 2014, from 11,059 bbls for the comparative period in 2013. This was also an increase of 47% from 44,724 bbls in Q1 2014.
- The Company's oil and NGL production has increased to 78% of the Company's combined oil and natural gas production in Q2 2014 from 54% in Q2 2013.
- Caza's natural gas production increased 100% to 111,016 Mcf for the three-month period ended June 30, 2014, from 55,626 Mcf for the comparative period in 2013.
- Average net production volumes increased 320% to 937 Boe/d for the three-month period ended June 30, 2014, from 223 Boe/d for the comparative period in 2013, and have since increased to an average of 1,315 Boe/d during the month of July 2014. The Company's net aggregate production for the month of July was 40,776 Boe, which is currently ahead of the Company's forecast.
- Operating net back increased to US\$57.84 for the three month period ended June 30, 2014, from US\$22.24 for the comparative period in 2013.
- The average oil price received by Caza increased 8% to US\$92.89 per bbl during the three-month period ended June 30, 2014, from US\$85.92 per bbl during the comparative period in 2013. The average natural gas price received by Caza increased 20% to US\$4.47 per Mcf during the three-month period ended June 30, 2014, from US\$3.72 per Mcf during the comparative period in 2013.
- The average combined price received by Caza in Q2 2014 increased 1% to US\$74.55 per Boe compared to US\$74.45 per Boe in Q1 2014.
- Caza had a cash and cash equivalents balance of US\$3,944,944 as of June 30, 2014, as compared to US\$5,082,401 at March 31, 2014. The Company has drawn an aggregate of US\$45MM from the total amount of US\$50MM available to it pursuant to its Note Purchase Agreement with Apollo Investment Corporation, an investment fund managed by Apollo Investment Management. These figures do not include gross proceeds from the recent equity raise of approximately US\$10 million, as mentioned below.

Second Quarter Operational Results and Recent Events

- West Copperline Property, Lea County, New Mexico: On July 21, 2014, the Company announced results for its West Copperline 29 Fed #4H horizontal Bone Spring development well. Under controlled flowback the well produced at a peak 24 hour gross rate of 1,598 Boe, which consisted of 1,220 bbls of oil and 2.27 MMcf of natural gas on July 16, 2014. The initial 28 day average for this well was 1,173 Boe/d gross, which consisted of 922 bbls of oil and 1.5 MMcf of natural gas per day.

Caza now has four producing wells on this property. The West Copperline 29 Fed #1H and #2H wells are producing from the 2nd Bone Spring Sand, and the West Copperline 29 Fed #3H and #4H wells are producing from the 3rd Bone Spring Sand. The West Copperline battery has averaged 1,532 Boe/d gross from all four wells, which consists of 1,238 bbls of oil and 1.8 MMcf of natural gas per day during the month of August 2014. Caza currently has a 62.5% working interest (approximate 47.25% net revenue interest) in the West Copperline wells.

- Gramma Ridge Property, Lea County, New Mexico: On July 21, 2014, the Company announced that the Gramma Ridge 27 State #2H horizontal Bone Spring test well (the "27-2H well") had reached the intended total measured depth and would be fracture stimulated beginning on July 27, 2014. The fracture stimulation was completed this week and included 24 stages. Production tubing is currently being installed, and initial flowback is anticipated to begin later this week. The market will be updated once production has stabilized and a peak rate has been achieved. The 27-2H well is a direct offset to the highly successful Gramma Ridge 27 State #1H well (the "27-1H well"), as referenced below. Caza currently has a 52.5% working interest (approximate 40.82% net revenue interest) in the Gramma Ridge 27-1H and 27-2H wells.
- Broadcaster Property, Lea County, New Mexico (West Copperline non-operated): On July 21, 2014, the Company announced that the the non-operated Broadcaster 29 Fed #3H horizontal 3rd Bone Spring development well was drilling ahead. The operator was preparing to begin drilling the lateral section to a total measured depth of approximately 15,824 feet. The well has reached the intended total measured depth and the fracture stimulation has been scheduled for August 24, 2014. The market will be updated once the frac has been completed and production has stabilized. The Broadcaster property is contiguous to the Company's West Copperline property, and this well is a direct offset to the Company's operated West Copperline Fed 29 #1H and #3H wells, which have each delivered very strong results. Caza currently has a 25% working interest (17.63% net revenue interest) in the Broadcaster Fed 29 #3H well.
- On July 21, 2014, the Company announced that it had voluntarily prepaid all amounts owing under its \$4.3 million convertible unsecured loan (the "Loan") made available by YA Global Master SPV Ltd., an investment fund managed by Yorkville Advisors LLC ("Yorkville"). The prepayment amount of \$1,676,777 terminated the Loan between the Company and Yorkville.
- On July 4, 2014, the Company completed the placing of 32,679,739 common shares at a price of £0.18 per share (approximately C\$0.33) for gross proceeds of approximately US\$10 million (approximately £5.9 million and C\$10.7 million) from investors in the United Kingdom.
- Jazzmaster Property, Lea County, New Mexico: On June 26 2014, the Company announced results for the non-operated Jazzmaster 17 State #3H horizontal Bone Spring development well. Under controlled flowback, the well produced at a peak 24 hour rate of 650 Boe, which consisted of 569 bbls of oil and 488 Mcf of natural gas. The initial 30 day average for this well was 538 Boe/d gross, which consisted of 459 bbls of oil and 471 Mcf of natural gas per day. Caza has a 25.0% working interest (approximately 19.94% net revenue interest) in the Jazzmaster 17 State #3H well.
- On June 5, 2014, the Company announced that it had drawn an advance of US\$10MM pursuant to its Note Purchase Agreement with Apollo Investment Corporation, an investment fund managed by Apollo Investment Management. With this advance, the Company has drawn an aggregate of US\$45MM from the total facility of US\$50MM.
- Gramma Ridge Property, Lea County, New Mexico: On May 29, 2014, the Company announced the results of its Gramma Ridge 27-1H horizontal Bone Spring test well. Under controlled flowback the well produced at a peak 24 hour gross rate of 1,602 Boe, which consisted of 830 bbls of oil and 4.63 MMcf of natural gas. The initial 30 day average for this well was 877 Boe/d gross, which consisted of 530 bbls of oil and 2.1 MMcf of natural gas. Caza currently has a 52.5% working interest (approximate 40.82% net revenue interest) in the Gramma Ridge 27-1H well.

- **Forehand Ranch Property, Eddy County, New Mexico:** On May 29, 2014, the Company announced that it had begun a shallow pool Cherry Canyon development program on this property. The Cherry Canyon is a shallow oil interval in the Delaware Formation at approximately 4,000 feet vertical depth. The Company's intent was to initially drill and frac three vertical wells, one being a pressure maintenance well, in succession using the same rig. However, log data obtained while drilling made an unpermitted location look more favorable than one of the three permitted locations. Therefore, the Company decided to drill the first two locations and release the rig while it pursued a permit to drill the more favorable location. The two vertical wells, Forehand Ranch 22 State #1 (the FR 22-1 well") and Forehand Ranch 27 State #4 (the "FR 27-4 well"), have been drilled and are scheduled to be fracture stimulated this month. The FR 27-4 well will be completed as a pressure maintenance well, which will significantly reduce lease operating expenses at Forehand Ranch.

The Company has four additional Cherry Canyon locations permitted for drilling on the property, and currently has a 63% working interest (approximate 47.25% net revenue interest) in the FR 22-1, FR 27-4 and the four permitted Cherry Canyon locations.

- **West Copperline Property, Lea County, New Mexico:** On April 17, 2014, the Company announced the results of its West Copperline 29 Fed #2H well. Under controlled flowback, the well produced at a peak 24 hour gross rate of 1,366 Boe, which consisted of 1,177 bbls of oil and 1.133 MMcf of natural gas, on April 12, 2014. The initial 30 day average for this well was 688 Boe/d gross, which consisted of 534 bbls of oil and 925 Mcf of natural gas per day. Caza currently has a 62.5% working interest (approximate 47.25% net revenue interest) in this well.
- **Marathon Road/Lynch Property, Lea County, New Mexico:** On March 26, 2014, the Company announced the results of the non-operated Marathon Road 15 PA Fed #1H well. Under controlled flowback, the well produced at a rate of approximately 2,361 Boe, which consisted of 2,032 bbls of oil and 1.974 MMcf of natural gas on March 21, 2014. The initial 30 day average for this well was 1,974 Boe/d gross, which consisted of 1,721 bbls of oil and 1.52 MMcf of natural gas. Caza currently has a 14.7% working interest (approximate 12.5% net revenue interest) in this well.

Forward Drilling Program and Performance Against Stated Production Targets

- The next scheduled wells to be drilled under the Company's Bone Spring program are anticipated to be as follows: (i) Operated Lennox 32 State Unit #4H (mid-August 2014); (ii) Non-operated Marathon Road 15 OB #1H (late August 2014); (iii) Operated Gramma Ridge 27 State #4H (early October 2014); and (iv) Non-operated second Broadcaster well (late Q4 2014).
- On February 5, 2014, the Company announced its intended drill plan, including many of the wells listed above, and the resulting production forecast. Production growth was forecasted to continue through August 2014, and was forecasted to reach 35,538 Boe for that month (1,185 Boe/d). The most recent production data for the month of July 2014, revealed the Company's net aggregate production to be 40,776 Boe (1,315 Boe/d), which is currently ahead of the forecasted rates.

W. Michael Ford, Chief Executive Officer commented:

"We are pleased to provide our financial and operational results for the second quarter of 2014. Our numbers are up across the board, both year-on year and quarter-on-quarter. Our oil and NGL volumes are up 495% year-on-year and 47% since Q1 2014. Oil and NGL's now comprise 78% of the Company's combined oil and natural gas production. Additionally, our natural gas production was up 100% year-on-year. These increases have led to a 320% year-on-year increase to the Company's average net production volumes.

"Our production increases have led to significant increases in Company revenues and adjusted EBITDA. Company revenues from oil and natural gas sales increased 489% year-on-year and 37% quarter-on-quarter. Our adjusted EBITDA also increased to US\$3,269,495 for the quarter compared to a loss a year ago and has increased 65% quarter-on-quarter. These increases along with the recently announced equity raise have allowed us to target additional leasing in the Bone Spring play and retire the Yorkville debt.

"The Company's continued successes in the Bone Spring play and the recent equity infusion have the Company poised for further growth in the second half of 2014, which should continue to generate material value for the Company and our shareholders."

Copies of the Company's unaudited financial statements for the first quarter ended June 30, 2014, and the accompanying management's discussion and analysis are available on SEDAR at www.sedar.com and the Company's website at www.cazapetro.com.

About Caza

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

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

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

ADVISORY STATEMENT

Information in this news release that is not current or historical factual information may constitute forward-looking information within the meaning of securities laws. Such information is often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "schedule", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "intend", "could", "might", "should", "believe", "develop", "test", "anticipation" and similar expressions. In particular, information regarding production revenue, future drilling or completion operations, production and revenue growth and available sources of financing contained in this news release constitutes forward-looking information within the meaning of securities laws.

Implicit in this information, are assumptions regarding the future budgets and costs, success and timing of drilling operations, rig availability, projected production, revenue and expenses and well performance. These assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that actual future operations, operating results and economic performance of the Company are subject to a number of risks and uncertainties, including general economic, market and business conditions and could differ materially from what is currently expected as set out above. In addition, the geotechnical analysis and engineering to be conducted in respect of certain wells may not be complete. The flow rates set out herein are not necessarily indicative of long term performance or of ultimate recovery. Future flow rates from wells may vary, perhaps materially, and wells may prove to be technically or economically unviable. Any future flow rates will be subject to the risks and uncertainties set out herein.

For more exhaustive information on these risks and uncertainties you should refer to the Company's most recently filed annual information form which is available at www.sedar.com and the Company's website at www.cazapetro.com. 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 may be required by securities laws.

GLOSSARY OF ABBREVIATIONS

Adjusted EBITDA	net income (loss) plus interest, depreciation, depletion, amortization, accretion, impairment and stock based compensation	Boe/d	barrels of crude equivalent per day
bbbl	one barrel, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons	Mcf	one thousand cubic feet of natural gas
bbbls/d	barrels per day	MMcf	million cubic feet of natural gas
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	NGL	natural gas liquids

The term Adjusted EBITDA consists of net income (loss) plus interest, depreciation, depletion, amortization, accretion, impairment and stock based compensation. Adjusted EBITDA is not defined under International Financial Reporting Standards ("IFRS") and should not be considered in isolation or as an alternative to conventional IFRS measures. Please see the Company's Management's Discussion & Analysis for the three

and six month period ending June 30, 2014 for a discussion of Adjusted EBITDA under the heading "Non-IFRS Measures" and for reconciliation of Adjusted EBITDA to net loss, which is the most directly comparable measure of financial performance calculated under IFRS. Adjusted EBITDA should not be considered in isolation or as an alternative to conventional IFRS measures. Adjusted EBITDA and the underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity.

The term boe may be misleading, particularly if used in isolation. A boe conversion of six thousand cubic feet per one barrel 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. Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Caza Oil & Gas, Inc.
Condensed Consolidated Statements of Financial Position
(Unaudited)

(In United States dollars)	June 30, 2014	December 31, 2013
Assets		
Current		
Cash and cash equivalents (Note 7(c))	\$ 3,944,944	\$ 18,495,086
Restricted cash (Note 9)	468,800	455,317
Accounts receivable	13,039,989	5,582,816
Derivative assets (Notes 9)	346,826	-
Prepaid and other	414,628	104,444
	<u>18,215,187</u>	<u>24,637,663</u>
Exploration and evaluation assets (Note 2)	14,189,748	7,843,846
Petroleum and natural gas properties and equipment (Note 3)	60,224,381	46,618,635
	<u>\$ 92,629,316</u>	<u>\$ 79,100,144</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 20,472,283	\$ 16,153,038
Derivative liabilities (Notes 9 and 11)	1,475,071	677,507
Decommissioning liabilities (Note 4)	124,438	122,269
	<u>22,071,792</u>	<u>16,952,814</u>
Notes payable (Notes 10 and 11)	42,851,139	35,855,042
Decommissioning liabilities (Note 4)	1,255,739	850,365
	<u>66,178,670</u>	<u>53,658,221</u>
Total Equity		
Share capital	80,958,170	77,967,487
Warrants	156,365	156,365
Share based compensation reserve	10,716,372	10,480,968
Deficit	<u>(62,708,200)</u>	<u>(60,759,064)</u>
Equity attributable to owners of the Company	29,122,707	27,845,756
Non-controlling interests	<u>(2,672,061)</u>	<u>(2,403,833)</u>
Total equity	<u>26,450,646</u>	<u>25,441,923</u>
	<u>\$ 92,629,316</u>	<u>\$ 79,100,144</u>

See accompanying notes to the condensed consolidated financial statements

Caza Oil & Gas, Inc.
Condensed Consolidated Statements of Net Loss and Comprehensive Loss
(Unaudited)

(In United States dollars)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Revenue and other				

Petroleum and natural gas	\$	6,286,049	\$	1,067,991	\$	10,877,556	\$	2,347,287
Interest income		56		420		176		542
		<u>6,286,105</u>		<u>1,068,411</u>		<u>10,877,732</u>		<u>2,347,829</u>
Expenses								
Production		1,408,977		615,825		2,438,347		1,049,843
General and administrative		1,535,370		1,624,421		2,903,740		3,042,578
Depletion and depreciation (Notes 3 and 4)		1,859,742		578,730		3,408,097		1,153,644
Financing costs		1,554,461		460,056		3,143,900		570,422
Other expense (income)		(687,490)		(32,003)		(669,685)		22,997
Exploration and evaluation impairment (Note 2)		322,752		740,677		322,752		740,677
Loss on disposal of assets		-		120,041		-		120,041
Realized loss on risk management contracts		278,795		-		419,612		-
Unrealized loss on risk management contracts		776,648		-		1,128,333		-
		<u>7,049,255</u>		<u>4,107,747</u>		<u>13,095,096</u>		<u>6,700,202</u>
Net loss and comprehensive loss for the period		<u>(763,150)</u>		<u>(3,039,336)</u>		<u>(2,217,364)</u>		<u>(4,352,373)</u>
Attributable to:								
Owners of the Company		(673,466)		(2,642,636)		(1,949,136)		(3,777,305)
Non-controlling interests		(89,684)		(396,700)		(268,228)		(575,068)
	\$	<u>(763,150)</u>	\$	<u>(3,039,336)</u>	\$	<u>(2,217,364)</u>	\$	<u>(4,352,373)</u>
Net loss per share								
- basic and diluted		<u>(0.00)</u>		<u>(0.02)</u>		<u>(0.01)</u>		<u>(0.03)</u>
Weighted average shares outstanding								
- basic and diluted ⁽¹⁾		<u>199,323,039</u>		<u>170,879,773</u>		<u>193,651,712</u>		<u>169,777,769</u>

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

Caza Oil & Gas, Inc.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

For the six month period ended June 30,
(In United States dollars)

	2014	2013
OPERATING		
Net loss for the period	\$ (2,217,364)	\$ (4,352,373)
Adjustments for items not affecting cash:		
Depletion and depreciation	3,408,097	1,153,644
Unwinding of the discount (Note 4)	16,798	10,501
Share-based compensation	175,874	413,669
Non-cash financing costs	726,780	217,420
Unrealized currency gain	-	(2,172)
Exploration and evaluation impairment	322,752	740,677
Realized loss on risk management contracts	165,708	-
Unrealized loss on risk management contracts and derivative liabilities	608,707	-
Loss on disposal of assets	-	120,041
Other expense	13,206	(20,761)
Interest income	(176)	(542)
Changes in non-cash working capital (Note 7(a))	<u>(7,611,855)</u>	<u>1,000,502</u>
Cash flows (used in) from operating activities	<u>(4,391,473)</u>	<u>(719,394)</u>
FINANCING		
Proceeds from issuance of shares	-	1,871,660
Proceeds from issuance of notes payable (note 10)	10,000,000	20,000,000
Note principal payments	-	(632,500)
Financing Costs paid	(740,000)	(1,799,913)
Interest received	176	542

Changes in non-cash working capital (Note 7(a))	(111,515)	72,098
Cash flow from financing activities	9,148,661	19,511,887
INVESTING		
Exploration and evaluation expenditures (Note 2)	(23,118,402)	(7,514,660)
Development and production expenditures (Note 3)	(177,828)	(383,966)
Purchase of office furniture and equipment (Note 3)	(1,586)	(1,250)
Restricted cash	-	(416,048)
Partner reimbursement	-	61,364
Changes in non-cash working capital (Note 7a)	3,990,486	1,757,704
Cash flows used in investing activities	(19,307,330)	(6,496,856)
DECREASE IN CASH AND CASH EQUIVALENTS	(14,550,142)	12,295,637
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	18,495,086	6,809,640
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 3,944,944	\$ 19,105,277

See accompanying notes to the condensed consolidated financial statements

Caza Oil & Gas, Inc.
Condensed Consolidated Statements of Changes in Equity
(Unaudited)

For the six month period ended June 30, (In United States dollars)	2014	2013
Share Capital		
Balance, beginning of period	\$ 77,967,487	\$ 75,064,216
Common shares issued	2,990,683	2,127,268
Balance, end of period	80,958,170	77,191,484
Warrants		
Balance, beginning of period	156,365	89,674
Issued	-	-
Balance, end of period	156,365	89,674
Share based compensation reserve		
Balance, beginning of period	10,480,968	9,648,162
Share-based compensation	235,404	394,071
Balance, end of period	10,716,372	10,042,233
Deficit		
Balance, beginning of period	(60,759,064)	(53,298,407)
Net loss allocated to the owners of the Company	(1,949,136)	(3,777,305)
Balance, end of period	(62,708,200)	(57,075,712)
Non-Controlling Interests		
Balance, beginning of period	(2,403,833)	(1,290,125)
Net loss allocated to non-controlling interests	(268,228)	(575,068)
Balance, end of period	(2,672,061)	(1,865,193)
Total Equity	\$ 26,450,646	\$ 28,382,486

See accompanying notes to the condensed consolidated financial statements

1. Basis of Presentation

Caza Oil & Gas, Inc. ("Caza" or the "Company") was incorporated under the laws of British Columbia on June 9, 2006 for the purposes of acquiring shares of Caza Petroleum, Inc. ("Caza Petroleum"). The Company and its subsidiaries are engaged in the exploration for and the development, production and acquisition of, petroleum and natural gas reserves. The Company's common shares are listed for trading on the Toronto Stock Exchange trading as the symbol "CAZ" and AIM stock exchange as the symbol "CAZA". The corporate headquarters of the Company is located at 10077 Grogan's Mill Road, Suite 200, The Woodlands, Texas 77380 and the registered office of the Company is located at Suite 1700, Park Place, 666 Burrard Street Vancouver, British Columbia, V6C 2X8.

The condensed consolidated financial statements (the "Financial Statements") were prepared in accordance with IAS 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS").

These Financial Statements should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2013, which outline the Company's significant accounting policies in Note 2 thereto, as well as the Company's critical accounting judgments and key sources of estimation uncertainty, which have been applied consistently in these Financial Statements. The note disclosure requirements of annual consolidated financial statements provide additional disclosures to that required for the Financial Statements.

These consolidated financial statements were approved for issuance by the Board of Directors on August 11, 2014.

Application of new IFRS

IFRIC 21 - *Levies* was issued by the International Accounting Standards Board (IASB) in May 2013 and is an interpretation of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation clarifies the obligating event that gives rise to a liability to pay a levy. IFRIC 21 is effective for financial periods beginning on or after January 1, 2014. The Company has evaluated the impact of this interpretation on its Financial Statements and it did not have any material impact.

2. Exploration and evaluation assets ("E&E")

	June 30, 2014	December 31, 2013
Balance, beginning of the period	\$ 7,843,846	\$ 10,085,746
Additions to exploration and evaluation assets	23,397,596	28,004,357
Transfers to petroleum and natural gas properties and equipment	(16,728,942)	(28,764,566)
Impairment	(322,752)	(1,481,691)
Balance, end of the period	\$ 14,189,748	\$ 7,843,846

3. Petroleum and natural gas properties and equipment

Cost	Development & Production ("D&P") Assets	Corporate Assets	Total
Balance, beginning of the period	\$ 73,541,238	\$ 830,076	\$ 74,371,314
Additions	283,314	1,586	284,900
Transfers from E&E	16,728,942	-	16,728,942
Balance, end of the period	\$ 90,553,494	\$ 831,662	\$ 91,385,156
Accumulated Depletion and Depreciation			
	D&P Assets	Corporate Assets	Total
Balance, beginning of the period	\$ 26,940,071	\$ 812,606	\$ 27,753,198
Depletion and depreciation	3,400,182	7,916	3,408,098
Balance, end of the period	\$ 30,340,253	\$ 820,522	\$ 31,160,775
Carrying amounts			
At December 31, 2013	\$ 46,601,167	\$ 17,468	\$ 46,618,635
At June 30, 2014	\$ 60,213,241	\$ 11,140	\$ 60,224,381

The Company did not capitalize general and administrative expenses directly to E&E or petroleum and natural gas properties and equipment assets in the periods presented. There were no impairment indicators as of June 30, 2014 and December 31, 2013.

4. Decommissioning Liabilities

The following is the continuity schedule of the obligation associated with the retirement of oil and gas

properties:

	Period ended June 30, 2014	Year ended December 31, 2013
Decommissioning liabilities, beginning of the period	\$ 972,634	\$ 967,798
Obligations incurred	390,745	312,894
Revision in estimated cash flows and discount rate	-	(190,916)
Obligations settled	-	(140,645)
Unwinding of the discount	16,798	23,503
Decommissioning liabilities, end of the period	\$ 1,380,177	\$ 972,634
Current portion	124,438	122,269
Long-term decommissioning liabilities	\$ 1,255,739	\$ 850,365

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$3,512,983 (December 31, 2013 - \$2,083,992). The June 30, 2014 obligation was calculated using a risk free discount rate of 3.7% (2013 - 3.7%) and an inflation rate of 3% (2013 - 3%). It is expected that these obligations will be funded from general resources of the Company at the time the costs are incurred with the majority of costs expected to occur between 2015 and 2030.

5. Related Party Transactions

Singular Oil & Gas Sands, LLC ("Singular") is a related party as it is a company under common control with Zoneplan Limited, which is a significant shareholder of Caza.

Singular participated in the drilling of the Matthys McMillan Gas Unit #2 and the O B Ranch #1 and 2 wells located in Wharton County, Texas. Under the terms of that agreement, Singular paid 14.01% of the drilling costs through completion to earn a 10.23% net revenue interest on the Matthys McMillan Gas Unit #2 well and paid 12.5% of the drilling costs to earn a 6.94% net revenue interest on the O B Ranch #1 well. Under the terms of the agreement of the O B Ranch #2 Singular paid 9.375% of the drilling costs to earn approximately 6.8% net revenue interest. This participation was in the normal course of Caza's business and on the same terms and conditions to those of other joint interest partners. Singular owes the Company \$4,451 in joint interest partner receivables as at June 30, 2014 (December 31, 2013 - \$51,431).

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

6. Commitments and Contingencies

As of June 30, 2014, the Company is committed under operating leases for its offices and corporate apartment in the following aggregate minimum lease payments which are shown below as operating commitments:

2014 \$ 120,917
2015 \$ 184,402

The Company is required under the Apollo Note Agreement to convey a proportionately reducible 2% overriding royalty interest in each lease acquired by Caza using proceeds advanced under this agreement. These amounts are not payable until such a time that these leases produce petroleum and natural gas revenues. See Note 10 for additional information.

7. Supplementary Information

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

June 30, 2014 June 30, 2013

Provided by (used in)

Accounts receivable	\$ (7,457,173)	\$ 611,085
Prepaid and other	(310,186)	80,109
Accounts payable and accrued liabilities	<u>4,034,475</u>	<u>2,139,110</u>
	<u>\$ (3,732,884)</u>	<u>\$ 2,830,304</u>
Summary of changes		
Operating	\$ (7,611,855)	\$ 1,000,502
Investing	3,990,486	1,757,704
Financing	<u>(111,515)</u>	<u>72,098</u>
	<u>\$ (3,732,884)</u>	<u>\$ 2,830,304</u>

(b) supplementary cash flow information

	June 30, 2014	June 30, 2013
Interest paid	\$ 2,240,000	\$ -
Interest received	176	542

(c) cash and cash equivalents

	June 30, 2014	December 31, 2013
Cash on deposit	\$ 3,875,403	\$ 13,625,703
Money market instruments	<u>69,541</u>	<u>4,869,383</u>
Cash and cash equivalents	<u>\$ 3,944,944</u>	<u>\$ 18,495,086</u>

The money market instruments bear interest at a rate of 0.010% as at June 30, 2014 (December 31, 2013 - 0.010%).

8. 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. Except as noted below there have been no changes in the Company's risks, or the objectives, policies and processes to manage these risks.

Commodity Price Risk

The Company is subject to commodity price risk for the sale of natural gas. The Company may enter into contracts for risk management purposes only, in order to protect a portion of its future cash flow from the volatility of natural gas and natural gas liquids commodity prices. On November 6, 2013, the Company entered into swap contracts to limit exposure to declining crude oil prices for approximately 75% of its production from currently producing wells. Under these swaps, the Company receives or pays monthly a cash settlement on the covered production of the difference between the swap price and the month average of the daily closing quoted spot price per barrel of West Texas Intermediate NYMEX crude oil. These agreements cover 93,782 barrels of oil at a swap price of \$92.55, \$90.04 and \$96.11 during the year ending December 31, 2014 and cover 61,850 barrels of oil at a swap price of \$87.05, \$83.70 and \$89.34 during the year ended December 31, 2015 and cover 8,428 barrels at a swap price of \$85.23 during the year ended December 31, 2016. The fair value of the Company's commodity price derivative contracts represents the estimated amount that would be received for settling the outstanding contracts on June 30, 2014, and will be different than what will eventually be realized. The fair value of these assets at a particular point in time is affected by underlying commodity prices, expected commodity price volatility and the duration of the contract and is determined by the expected future settlements of the underlying commodity. The gain or loss on such contracts is made up of two components; the realized component, which reflects actual settlements that occurred during the period, and the unrealized component, which represents the change in the fair value of the contracts during the period. For the three month period ended June 30, 2014 the Company recognized a loss of \$278,795 on its settled commodity price derivative contracts and recorded an unrealized loss of \$776,648 on unsettled commodity price derivative contracts due to higher commodity prices.

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 consolidated statement of financial position date. A majority of the Company's financial assets at the consolidated statement of financial position 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 & 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 six month period ended June 30, 2014, the Company sold 60% (year ended December 31, 2013 - 71%) 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 interest partner relating to capital expenditures, costs of such operations are paid for in advance to the Company by way of a cash call to the partner of the operation being conducted.

Caza management assesses quarterly whether there should be any impairment of the financial assets of the Company. At June 30, 2014, the Company had overdue past due accounts receivable from certain joint interest partners of \$266,631 which were outstanding for greater than 60 days (2013 - \$156,426) and \$978,413 that were outstanding for greater than 90 days (2013 - \$17,460). These outstanding amounts due from certain joint interest partners were received by the Company on July 16, 2014. At June 30, 2014, the Company's three largest joint interest partners represented approximately 25%, 17% and 1% of the Company's receivable balance (December 31, 2013 - 18%, 4% and 3% respectively). The maximum exposure to credit risk is represented by the carrying amount on the consolidated statement of financial position of cash and cash equivalents, accounts receivable and deposits.

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which the Group has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is more than 60 days outstanding) are still considered recoverable. The Company manages exposure on cash balances by holding cash with large and reputable financial institutions. The Company also assesses the credit worthiness of each counterparty before entering into contracts and ensures that the counterparties meet minimum credit quality requirements.

9. Equity Facility

The Company entered into an Equity Adjustment Agreement (the "Adjustment Agreement") on March 5, 2013, as amended, with Global Master SPV Ltd., an investment fund managed by Yorkville Advisors Global, LP in conjunction with its SEDA Agreement dated November 23, 2012 with Yorkville. Pursuant to the Adjustment Agreement, during the three months ended March 31, 2013, the Company issued 3,846,154 common shares to Yorkville Advisors Global, LP ("Yorkville") at a price of £0.13 per share for aggregate proceeds of £500,000 (US\$756,451). The Company has deposited in escrow £275,000 (US\$ - \$455,317) as security for this contingent payment obligation, which has been recorded within restricted cash on the condensed consolidated statements of financial position.

Under the terms of the Adjustment Agreement, if on December 31 2014 the common share market price (determined as 95% of the average daily volume weighted average price of common shares (VWAP) during the preceding 22 trading days) is greater than £0.13, then Yorkville will pay to the Company the difference multiplied by the number of New Common Shares, and if the market price is less than £0.13 then the Company will pay to Yorkville the difference multiplied by the number of New Common Shares. The fair value of this derivative was calculated using Monte-Carlo Simulation at the date of issuance using inputs as of that date and at June 30, 2014 using inputs as of June 30, 2014, including the share price of \$0.13 per share, the strike price of \$0.19 per share, risk-free interest rate of 0.72%, a dividend yield of nil, a weighted average volatility factor of 72.14%, and an expected life of one year. The derivative liability is classified as a financial instrument measured at fair value through profit or loss. The fair value of the derivative asset amounted to US\$346,826 as of June 30, 2014 (2013 - \$(330,768)) has been included within current assets on the condensed consolidated statement of financial position, and the change in fair value of US\$677,594 since December 31, 2013 is included in other income (expenses) in the condensed consolidated statement of net loss and comprehensive loss.

10. Notes Payable - Apollo

The Company entered into a Note Purchase Agreement (the "Note Agreement") dated May 23, 2013 with Apollo Investment Corporation ("the Note Holder"), an investment fund managed by Apollo Investment Management, pursuant to which the Note Holder has agreed to purchase from the Company up to US\$50,000,000 of its senior secured notes. The Company received US\$20,000,000 at the closing of the Note Agreement ("Tranche A Apollo Note") with an additional drawdown of US\$5,000,000, US\$10,000,000 and US\$10,000,000 on September 11, 2013, December 19, 2013 and May 19, 2014, respectively. As at June 30, 2014, the Company may draw additional advances up to US\$5,000,000 until August 23, 2014, if at the time of the advance, the Company meets the specified minimum production and drilling cost requirements for previous wells drilled under the program that were financed with funding from the Note Purchase Agreement. In addition to these funds, the Company will have the ability to reinvest cash flow from program wells back into the drilling program.

The outstanding balance of the Tranche A Apollo Note as at June 30, 2014 was US\$41,793,875 (net of unamortized transaction costs of US\$3,206,124) (2013 - US\$32,027,392). This outstanding balance matures on May 23, 2017. The Tranche A Apollo Note bears interest at a floating rate of one-month LIBOR (with a floor of 2%) plus 10% per annum, payable monthly. In an event of default under the Note Purchase Agreement, additional interest will be payable at a default rate of 5% per annum, but only during the period of default.

The Company is required to comply with financial covenants, which are tested quarterly, providing for specified interest coverage ratios beginning in the quarter ending September 30, 2013, and asset coverage ratios and minimum production, beginning in the quarter ending March 31, 2014. Furthermore, the Company is required to maintain a limit on expenditures for general and administrative costs. The Company was compliant with this general and administrative limit for the three month period ended June 30, 2014.

11. Notes Payable - Yorkville

On November 1, 2013 the Company entered into an agreement in relation to a \$4.3 million convertible unsecured loan (the "Loan") from YA Global Master SPV Ltd., an investment fund managed by Yorkville. The Loan consists of US\$3.5 million of new credit facilities along with an additional US\$0.84 million that was used to repay amounts which remain outstanding under the prior loan from Yorkville. In connection with the Loan, the Company incurred a total of US\$304,060 in transaction costs. The Loan will mature on November 1, 2014 and may be extended until November 16, 2016 by Yorkville. The Loan bears interest on outstanding principal at 8% per annum and interest is payable quarterly only in Common Shares based on a conversion price equal to 92.5% of the average price of the Common Shares during the ten trading days prior to the interest payment date. At Yorkville's option, outstanding principal of the loan is convertible into Common Shares of the Company and the conversion price will be a price per Common Share equal to either (a) 92.5% of the average price of the Common Shares during the ten trading days prior to the conversion to a maximum of \$450,000 per month or (b) at Yorkville's option, a fixed price of £0.14. In connection with the Loan, Yorkville received an 8% implementation fee and a three year warrants valued at US\$72,343 (2013 - \$73,865) to purchase 2,529,333 Common Shares at an exercise price of \$0.17 per share. The outstanding balance of the Loan as at June 30, 2014 was US\$1,057,264 (net of unamortized transaction costs of US\$447,886) (2013 - US\$3,827,650). The fair value of the derivative liability amounting US \$160,276 as of June 30, 2014 (2013 - US\$160,276) has been included within current liabilities on the condensed consolidated statement of financial position, and the change in fair value of US \$nil since December 31, 2013 is included in other expenses in the condensed consolidated statement of net loss and comprehensive loss.

12. Long-term Incentive Plan

On March 25, 2014, the Board of Directors of the Company approved the 2014-2016 Incentive Performance Program, which is implemented under the Company's long-Term Incentive Plan. The Performance Program consists of three measurement periods of one, two and three years ending at each of the respective years 2014 through 2016. Performance awards are payable after the end of each year, based on a specified percentage of each participant's salary determined by the amount of the total shareholder return of the Company during each measurement period compared to the total shareholder return of 10 companies designated in a peer group. Subject to the discretion of the Board of Directors, performance awards are payable one-half in cash and one-half in common shares. Compensation expense resulting from the Performance Program will be accrued over the term of each measurement period beginning in the quarter ended June 30, 2014. Accrued compensation expense related to the three measurement periods for the quarter ended June 30, 2014 is \$119,061, consisting of the 50% cash portion of \$59,531 and the 50% share

portion of \$59,530, which assumes a payout based on the Company's attaining the midpoint range of total shareholder return compared to the peer group companies' performance.

The Board of Directors has reserved for issuance an aggregate of 4,289,608 common shares in connection with outstanding performance awards during the three-year performance program, based on the Company's attaining the midpoint of the payout performance range. The number of common shares actually issued may be more or less than 4,289,608 common shares.

13. Subsequent Events

On July 4, 2014 the Company completed an equity raise of US\$10.0 million (approximately £5.9 million or C\$10.7 million) through the placing of 32,679,739 common shares at a price of £0.18 (approximately C\$0.33) per share. Following admission, the Company will have 236,355,884 common shares outstanding.

On July 21, 2014 the Company voluntarily prepaid all amounts owed under its \$4.3 million convertible unsecured loan facility made available by YA Global Master SPV Ltd., an investment fund managed by Yorkville Advisors LLC. The prepayment amount of \$1,676,777 consisted of the outstanding principal of \$1,505,149, a prepayment penalty of \$150,515 and accrued interest of \$21,113.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the financial results for Caza Oil & Gas, Inc. ("Caza", "Corporation" or the "Company") should be read in conjunction with the unaudited condensed consolidated financial statements as at and for the three month period ended June 30, 2014 and the audited consolidated financial statements and corresponding MD&A for the year ended December 31, 2013. Additional information relating to the Company can be found on SEDAR at www.sedar.com. All figures herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") unless otherwise stated. This MD&A is dated August 11, 2014.

FORWARD LOOKING INFORMATION

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

These statements are based on certain factors and assumptions regarding the results of operations, the performance of projected activities and business opportunities. Specifically, we have used historical knowledge and current industry trends to project budgeted expenditures for 2014. While we consider these assumptions to be reasonable based on information currently available to us, they may prove to be incorrect.

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

which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws.

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

NON-IFRS MEASURES

The financial data presented herein has been prepared in accordance with IFRS. The Company has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include "operating netback", "funds flow from (used in) operations" and "Adjusted EBITDA".

Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales and is calculated by deducting royalties and operating expenses from revenues. Funds flow from (used in) operations is cash flow from operating activities before changes in non-cash working capital, and is used to analyze operations, performance and liquidity. The term Adjusted EBITDA consists of net income (loss) plus interest, depreciation, depletion, amortization, accretion, impairment and stock based compensation. The Company has included Adjusted EBITDA as a supplemental disclosure because its management believes that EBITDA provides useful information regarding our ability to service debt and to fund capital expenditures and provides investors a helpful measure for comparing its operating performance with the performance of other companies that have different financing and capital structures or tax rates.

These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. These measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity. When these measures are used, they are defined as "Non IFRS" and should be given careful consideration by the reader.

NOTE REGARDING BOES AND MCFES

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

CURRENCY

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

STRATEGY AND ASSETS

Strategy

The Company's strategy is to achieve significant growth in reserves and production through:

- progressing material, internally generated prospects, utilizing cash flows from existing production and exploiting Proven plus Probable reserves; and
- executing strategic acquisitions of assets at all stages of the development cycle to facilitate longer term organic growth.

In the implementation of this strategy, the Company has a clear set of criteria in high-grading projects:

- the Company seeks to retain control of project execution and timing through the operatorship of assets;
- assets should be close to existing established infrastructure, allowing for quick, efficient hook-up and lower operational execution risk;
- drilling targets in close proximity to known producing reservoirs; and
- internal models for core projects should demonstrate the ability to deliver at least a 25% rate-of-return on investment.

Assets

The Company is primarily focused in the Permian Basin of west Texas and southeast New Mexico, the most prolific oil and gas basin in North America. Independent forecasts predict that the Permian Basin will have the greatest oil supply growth of any North American basin over the next five years. This provides the Company with low-risk, liquids-rich development opportunities from many geologic reservoirs and play types. The basin also has a vast operational infrastructure in place. The Company is utilizing recent advances in horizontal drilling and dynamic completion technologies to unlock the significant resources within its asset base and the region.

Management has focused efforts on building a core asset base in the prolific Bone Spring play and has concluded that these assets represent the most significant opportunity for the Company to deliver material production, revenue growth and demonstrable shareholder returns within an acceptable timeframe. The Company expects that expanding and diversifying the producing asset base within the Bone Springs play will not only grow the Company but will also make it more resilient to risks associated with any single project.

The Company now has approximately 300 drilling locations plus 24 (7.31 net) producing wells in the Bone Spring play. Management believes that the Company is well-positioned with approximately 4,800 net acres in the play and continues to actively monitor opportunities to build on Caza's current acreage position.

The Company's Bone Spring leases are mostly State and Federal leases with primary terms between 5-10 years. In terms of obligations and commitments, one producing well will hold each lease in its entirety.

Outlook

Subject to the availability of appropriate financing, the Company's objective is to embark on an accelerated and expanded drilling program in the Bone Spring play over the next two years. Management believes that such a program has the potential to increase shareholder value significantly over the period. A program of this type will require additional financing and would utilize excess operational cash flow to fund further development drilling and lease purchases beyond the initial two year period.

Management believes that such a program can be accomplished by exploiting the Company's existing asset/lease inventory. However, if appropriate, Management will also seek to identify corporate and asset acquisitions, which will enable the Company to increase its position in the Bone Spring play. Accordingly, in line with the Company's stated strategy, Management's goal is to achieve significant growth in the Company's reserves and production, thereby raising the Company's profile in the basin and allowing shareholder value to be maximized and, if appropriate, fully matured over the short-to-medium term.

FINANCIAL AND OPERATING RESULTS

Petroleum and Production Revenue

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Natural gas				
Production (Mcf)	111,016	55,626	212,725	95,368
Revenue (\$)	495,733	207,152	972,711	338,452
Price (\$/Mcf)	4.47	3.72	4.57	3.55
Natural gas liquids				
Production (bbls)	5,231	1,796	6,511	2,984
Revenue (\$)	161,822	64,988	224,161	121,527
Price (\$/bbl)	30.94	36.18	34.43	40.73
Oil Production				
Production (bbls)	60,592	9,263	104,034	21,894
Revenue (\$)	5,628,494	795,821	9,680,684	1,887,308
Price (\$/bbl)	92.89	85.92	93.05	86.20
Combined				
Production (Boe)	84,325	20,330	145,999	40,773
Revenue (\$)	6,286,049	1,067,991	10,877,556	2,347,287
Price (\$/Boe)	74.55	52.53	74.50	57.57
Mcfe/d	5,560	1,340	4,840	1,352
Boe/d	937	223	807	225

Natural gas, natural gas liquids and crude oil revenues increased 489% to \$6,286,049 for the three-month period ended June 30, 2014 from \$1,067,991 for the three-month period ended June 30, 2013 (the "comparative period") and during the six month period ended June 30, 2014 increased 363% from the six-month period ended June 30, 2013. The increase resulted from increased production volumes from new wells brought on line during late 2013 and early 2014.

Average daily production increased by 320% to 937 boe/d in the second quarter of 2014 from 223 boe/d in the same period in 2013. The increase was mainly due to additional wells coming on line from the drilling program in the New Mexico Bone Spring play. Natural gas production made up 22% of Caza's production during the three month period ended June 30, 2014 with natural gas liquids and crude oil comprising the remaining 78%. This is compared to a total production profile comprised of 46% natural gas production for the same period in 2013. Caza's production volumes increased 315% to 84,325 boe for the three-month period ended June 30, 2014 up from 20,330 boe for the comparative period.

Our future revenue and production volumes will be directly affected by North American natural gas prices, West Texas Intermediate crude oil prices and natural gas liquid prices, the performance of existing wells, drilling success and the timing of the tie-in of wells into gathering systems.

Operating Netback Summary (Non-IFRS)

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

(on a boe basis)	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Oil and natural gas revenue	\$ 74.55	\$ 52.53	\$ 74.50	\$ 57.57
Production expense	(10.20)	(23.07)	(10.09)	(20.61)
Severance expense	(6.32)	(6.65)	(6.40)	(4.78)
Transportation expense	(0.19)	(0.57)	(0.22)	(0.36)
Operating netback (non-GAAP)	57.84	22.24	57.79	31.82

The change in netbacks for the three months ended June 30, 2014 occurred as a result of a revenue increase of \$22.02 per/boe as compared to the previous year. Production expenses decreased \$12.87 /boe as compared to the period ended June 30, 2013. There was a decrease in severance taxes and transportation costs of \$.71 per boe for the same three month period in 2013.

Production Expenses

	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Severance (\$)	533,190	135,156	933,988	194,868
Transportation (\$)	15,693	11,610	31,731	14,479
Production (\$)	860,094	469,059	1,472,628	840,496
Severance, transportation and production (\$)	1,408,977	615,825	2,438,347	1,049,843
Severance, transportation and production (\$/Boe)	16.71	30.29	16.70	25.75

Severance tax is a tax imposed by states on natural resources such as crude oil, natural gas and condensate extracted from the ground. The tax is calculated by applying a rate to the dollar amount of production from the property or a set dollar amount applied to the volumes produced from the property.

Severance taxes and transportation expenses totaled \$548,883 (\$6.51/boe) for the three-month period ended June 30, 2014, as compared to \$146,766 (\$7.22/boe) in the comparative period. Severance taxes and the transportation expense decreased 10% on a per boe basis as a result of the higher production volumes and commodity prices in the three month period ended June 30, 2014 as compared to the comparative period.

Production expenses for the three-month period ended June 30, 2014 were \$860,094 as compared to \$469,059 for the comparative period. Caza's average lifting cost for the three-month period ended June 30, 2014 was \$10.20 per boe versus \$23.07 per boe for the comparative period. The decrease in production costs for the three months ended June 30, 2014 occurred in part due to bringing on line higher volume wells in the New Mexico Bone Spring play that bring about lower per boe production expenses.

Depletion, Depreciation, Amortization and Accretion

Depletion, depreciation, amortization and accretion expense for the three-month period ended June 30, 2014 increased to \$1,868,141 (\$22.15/boe) from \$583,718 (\$28.71/boe) in the comparative period.

	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Depletion and depreciation (\$)	1,859,742	578,730	3,408,097	1,153,644
Accretion (\$)	8,399	4,988	16,798	10,501
Depletion, depreciation and accretion (\$)	1,868,141	583,718	3,424,895	1,164,145
Depletion, depreciation and accretion (\$/Boe)	22.15	28.71	23.46	28.55

The decreased depletion expense on a per boe basis for the period ended June 30, 2014 occurred as a result of the relationship of the costs incurred in drilling activities carried out in the West Texas and Southeast Texas Cash Generating Units in relation to the associated reserves recorded. This brought about an aggregate 23% decrease in depletion expense on a per boe basis as compared to the respective period in 2013.

Costs of unproved properties of \$14,189,749 were excluded from depreciable costs in the exploration and evaluation assets. A proportionate amount of the carrying value will be transferred to the depletable pool as reserves are proven through the execution of Caza's exploration program.

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

General and Administrative Expenses

	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
General and administrative (\$)	1,598,417	1,661,298	3,010,226	3,115,189
General and administrative recovery (\$)	(63,047)	(36,877)	(106,486)	(72,611)
Net general and administrative (\$)	1,535,370	1,624,421	2,903,740	3,042,578

General and administrative (\$/Boe)	18.96	81.71	20.62	76.40
Net general and administrative (\$/Boe)	18.21	79.90	19.89	74.62

Net general and administrative expenses for the second quarter 2014 decreased by 5% to \$1,535,370 from \$1,624,421 for the same period in 2013. On a boe basis, the net general and administrative expenses decreased by 77% to \$18.21/boe for the three-month period ended June 30, 2014 due to the increase in production volumes. Stock-based compensation expense in the amount of \$87,470 is included in general and administrative expenses for the three-month period ended June 30, 2014 and \$206,002 is included for the same period in 2013. During the period ended June 30, 2014, Caza did not capitalize general and administrative expenses relating to exploration and development activities.

Gain (Loss) on Risk Management Contracts

The Company has entered into commodity price derivative contracts to limit exposure to declining crude oil prices in accordance with its covenants under the Note Purchase Agreement. All derivative contracts are approved by management before the Company enters into them. The Company's risk management strategy is dictated in part by covenants in the Note Purchase Agreement (as defined herein) which require the Company to hedge approximately 75% of its production. The contracts limit exposure to declining commodity prices, thereby protecting project economics and providing increased stability of cash flows and for capital expenditure programs.

Under these contracts, the Company receives or pays monthly a cash settlement on the covered production of the difference between the swap price specified in the applicable contract and the month average of the daily closing quoted spot price per barrel of West Texas Intermediate NYMEX crude oil. These agreements cover 93,782 barrels of oil at a swap price of \$92.55, \$90.04 and \$96.11 during the year ending December 31, 2014 and cover 61,850 barrels of oil at a swap price of \$87.05, \$83.70 and \$89.34 during the year ended December 31, 2015 and cover 8,428 barrels at a swap price of \$85.23 during the year ended December 31, 2016.

The fair value of the Company's commodity price derivative contracts represents the estimated amount that would be received for settling the outstanding contracts on June 30, 2014, and will be different than what will eventually be realized. The fair value of these assets at a particular point in time is affected by underlying commodity prices, expected commodity price volatility and the duration of the contract and is determined by the expected future settlements of the underlying commodity. The gain or loss on such contracts is made up of two components; the realized component, which reflects actual settlements that occurred during the period, and the unrealized component, which represents the change in the fair value of the contracts during the period.

For the three month period ended June 30, 2014 the Company recognized a loss of \$278,795 on its settled commodity price derivative contracts and recorded an unrealized loss of \$776,648 on unsettled commodity price derivative contracts due to higher commodity prices.

Net loss

Caza incurred a net loss of \$763,151 for the three-month period ended June 30, 2014 as compared to a net loss of \$3,039,336 during the comparative period. On a per boe basis our net loss decreased 94% from \$149.50 for the period ended June 30, 2013 to \$9.05 for the second quarter in 2014. On a per share basis our net loss was \$(0.00) largely unchanged from the comparative period.

Investments

Interest income for the three-month period ended June 30, 2014 was \$56, decreasing from \$420 in the same period in 2013. Interest was earned on the proceeds received from advances made pursuant to the Company's credit facilities and cash on hand. Caza invested these funds in short-term money market funds. The Company does not hold any asset backed commercial paper.

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

The following table reconciles the non-IFRS measure "funds flow from (used in) operations" to "net loss", the most comparable measure calculated in accordance with IFRS. Cash flow from operations before changes in non-cash working capital provides better information as it ignores timing differences resulting primarily from fluctuations in payables and receivables. As such it is a common measure used by management in the oil and gas industry.

	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Net loss	(763,150)	(3,039,336)	(2,217,363)	(4,352,373)
Depletion, depreciation and amortization	1,859,743	578,730	3,408,098	1,153,644
Accretion	8,399	4,988	16,798	10,501
Stock-based compensation	87,470	186,402	235,404	394,071
Gain on sale of assets	-	243,592	-	243,590
Realized loss on hedging contracts	776,648	-	1,128,332	-
Non-cash financing costs	-	-	98,128	-
Exploration and evaluation expense	322,752	740,677	322,752	740,677
Long term incentive plan	119,061	-	119,061	-
Other expense (income) derivative	(678,669)	-	(423,693)	62,175
Funds flow (used in) provided by operations	1,732,253	(1,284,947)	2,687,517	(1,747,715)
Funds loss per share - basic and diluted	0.01	(0.01)	0.03	(0.01)

The increase in funds flow from (used in) operations as compared to the previous periods is associated with increased revenues during the first half of 2014, which was partially offset by increased severance tax expenses and production costs.

Net Loss Compared to Adjusted EBITDA (Non-IFRS)

	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Net loss	(763,150)	(3,039,336)	(2,217,364)	(4,352,373)
Add Back:				
Financing costs	1,554,461	460,056	3,143,901	570,421
Depletion, depreciation and amortization	1,859,742	578,730	3,408,097	1,153,644
Accretion	8,399	4,988	16,798	10,501
Stock-based compensation	87,470	186,402	235,404	394,071
Exploration and evaluation impairments	322,752	740,677	322,752	740,677
Changes in derivative liabilities	(695,889)	-	(688,748)	55,000
Long term investment plan	119,062	-	119,062	-
Disposal of assets	-	243,592	-	243,590
Unrealized loss on hedging contacts	776,648	-	1,128,332	-
Adjusted EBITDA	3,269,495	(824,891)	5,468,234	(1,184,469)
Adjusted EBITDA per share - basic and diluted	0.02	(0.00)	0.03	(0.01)

The table above sets forth a reconciliation of Adjusted EBITDA to net loss, which is the most directly comparable measure of financial performance, calculated under IFRS. The increase in Adjusted EBITDA as compared to the comparative period resulted from the success of the drilling program in the Bone Spring play in New Mexico.

Capital Expenditures

By Type (\$)	Three Months ended June 30,		Six Months ended June 30,	
	2014	2013	2014	2013
Drilling and completions	13,050,583	3,733,013	22,684,537	6,355,654
Seismic	-	82,800	-	126,800
Facilities and lease equipment	-	-	-	-
Office furnishings and equipment	-	-	1,586	1,250
Leasehold /geological /geophysical	33,963	1,465,897	15,879	1,274,234
Other costs (recovery)	596,625	(6,600)	595,815	80,574

Total 13,681,171 5,275,110 23,297,817 7,838,512

During the period ended June 30, 2014, Caza drilled nine gross wells (4.48 net) with activities concentrated in the Bone Spring play in New Mexico.

Outstanding Share Data

Caza is authorized to issue an unlimited number of common shares without par value. Holders of common shares are entitled to one vote per share on all matters voted on a poll by shareholders, and are entitled to receive dividends when and if declared by the board of directors out of funds legally available for the payment of dividends. Upon Caza's liquidation or winding up or other distribution of its assets among its shareholders for the purpose of winding up its affairs, holders of common shares are entitled to share pro rata in any assets available for distribution to shareholders after payment of all obligations of the Company. Holders of common shares do not have any cumulative voting rights or pre-emptive rights to subscribe for any additional common shares.

At August 12, 2014, 236,355,884 common shares were issued and outstanding. Common shares are issuable pursuant to: outstanding incentive compensation options; common share purchase warrants; exchange rights granted to members of management who hold shares of Caza Petroleum, Inc. ("Caza Petroleum"); performance awards granted pursuant to the Company's long term incentive plan; and the Convertible Loan (as defined below).

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

	Issued and Issuable Securities
Common Shares	
Issued and outstanding	236,355,884
Issuable from Exchangable rights	26,502,000
Issuable from exercise of warrants	3,584,557
Issuable from exercise of stock options	15,985,000
Issuable from exercise of performance awards	4,289,608 ¹
Total Common Shares issued and issuable	<u>286,717,049</u>
Warrants Issued and Outstanding	
Warrants to purchase common shares outstanding	3,584,557
Stock Options Issued	
Stock options outstanding	15,985,000

(1) The amount payable pursuant to the Company's performance awards shall vary depending the satisfaction of certain performance thresholds. Subject to the discretion of the board of directors, the performance awards provide that one-half of any award shall be satisfied by a cash payment and the other half shall be satisfied through an issuance of common shares. The board has authorized the issuance of up to 4,289,608 common shares in connection with the satisfaction of outstanding performance awards. Such number assumes that outstanding awards will be paid at the 100% level (200% being the maximum) and that half of each such award shall be satisfied through the issuance of shares. The actual number of shares issued pursuant to outstanding performance awards could be more or less than 4,289,608 common shares.

Commitments

The following is a summary of the estimated amounts required to fulfill Caza's remaining contractual commitments as at June 30, 2014:

Type of Obligation (\$)	Total	<1 Year	1-3 Years	4-5 Years	Thereafter
Operating leases	305,319	120,917	184,402	-	-
Asset retirement obligations	1,380,177	124,438	-	-	1,255,739
Total contractual commitments	<u>1,685,496</u>	<u>245,355</u>	<u>184,402</u>	<u>-</u>	<u>1,255,739</u>

Liquidity and Capital Resources

Caza's 2014 operating plan calls for participation in ten to twelve wells funded from production revenues, existing cash resources and available financing under the Note Purchase Agreement or the SEDA (each as defined below). In the event additional sources of financing become available, the Company would consider increases to its drilling program. The Company is focused on securing appropriate levels of capitalization to

support its business strategy. As commodity prices or production fluctuate or as other circumstances dictate, the Company may alter its capital program or reduce costs in order to maintain an acceptable level of capitalization.

At June 30, 2014, Caza had a working capital deficit of \$2,484,863 as compared to a surplus of \$8,484,624 as at December 31, 2013. This decrease of \$10,969,487 in working capital from December 31, 2013 resulted primarily from capital expenditures of \$23,297,817 in connection with drilling and lease acquisition activities, offset by \$2,687,517 funds flow from operations, the issuance of stock in the amount of \$2,062,754 and the issuance of debt in the amount of \$7,578,059. Caza had a cash balance of \$3,944,940 as of June 30, 2014.

On July 4, 2014, the Company completed an equity raise of US\$10.0 million (approximately £5.9 million and C\$10.7 million) through the placing of 32,679,739 common shares at a price of £0.18 (approximately C\$0.33) per share. The Company intends to use the net proceeds of the Placing on its drilling program in the Bone Spring play, for general corporate purposes and potentially for asset acquisitions in the Bone Spring play.

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

The Company has arranged for funding under the following agreements:

Note Purchase Agreement

On May 23, 2013, the Company entered into a Note Purchase Agreement (the "Note Agreement") with Apollo Investment Corporation (the "Note Holder"), an investment fund managed by Apollo Investment Management, pursuant to which the Note Holder agreed to purchase up to US\$50,000,000 of senior secured notes ("Notes") from the Company. Under the Note Purchase Agreement, as amended, the Company is required to comply with financial covenants, which are tested quarterly, providing for specified interest coverage ratios beginning in the quarter ending September 30, 2013, and asset coverage ratios and minimum production, beginning in the quarter ending March 31, 2014. The Company is also required to maintain a limit on general and administrative costs. The minimum interest coverage ratio in the Note Purchase Agreement has been amended. As a result the Company complied with such ratio as at June 30, 2014. . Any outstanding balances of the Notes may be prepaid at the option of the Company at any time at premiums that vary over time. The Note Purchase Agreement is also subject to a mandatory prepayment from the proceeds of the sale of assets and from funds received from transactions outside of the ordinary course of business. Certain mandatory payments are also required if in any period the Company fails to comply with any financial or performance covenants. The Note Agreement provides for customary events of default. Additionally, an event of default would occur upon a change of control of the Company, which consists of (i) a shareholder acquiring more than 35% of the Company's outstanding common shares, (ii) a change in the composition of the board of directors by more than 1/3 during a 12-month period or (iii) a termination of service by any three of the five executive officers of the Company. Outstanding balances under the Notes are secured by first-priority security interests in all of the Company's assets.

In addition to a 2% overriding royalty interest conveyed at the closing of the Note Agreement in its properties in Eddy and Lea Counties, New Mexico, the Company is also required to convey a proportionately reducible 2% overriding royalty interest in each lease acquired with proceeds from the Note Agreement. Upon full repayment of the Notes, the overriding royalty interests will convert to a 25% net profits interest in each property, proportionately reduced to reflect the Company's working interest as provided in the Note Agreement, which will reduce to a 12 1/2% net profits interest at such time as the Note Holder achieves specified investment criteria pursuant to the Note Agreement.

During 2013 and through the period ended June 30, 2014, the Company sold Notes in the aggregate principal amount of US\$45,000,000 to the Note Holder. The Company may draw additional advances of up to US\$5,000,000 until August 23, 2014, if at the time of the advance; the Company meets the specified minimum production and drilling cost requirements for previous wells drilled under the program financed by the Note Purchase Agreement. In addition to these funds, the Company has the ability to reinvest cash flow from program wells back into the drilling program.

The outstanding balance of the Notes as at June 30, 2014 was US\$45,000,000 (exclusive of unamortized

transaction costs US\$3,206,125). The Notes bear interest at a floating rate of one-month LIBOR (with a floor of 2%) plus 10% per annum, payable monthly and mature on May 23, 2017. In an event of default under the Note Purchase Agreement, additional interest will be payable at a default rate of 5% per annum, but only during the period of default.

In connection with the sale of the Notes, the Company incurred a total of US\$1,667,500 in transaction costs (consisting of US\$1,540,000 in issuance costs and US\$127,500 relating to the fair value of the 2% overriding royalty conveyed at the closing of the Note Purchase Agreement). In addition, the Company also incurred structuring fees of US\$2,359,912 in connection with the Note Purchase Agreement. The Notes are classified as other financial liabilities and are measured at amortized cost.

Standby Equity Distribution Agreement

The Company and Yorkville are party to a £6 million Standby Equity Distribution Agreement ("SEDA") dated November 23, 2012. The SEDA allows Caza to issue equity at a 5% discount to market to fund loan repayments or well costs in certain circumstances. As at June 30, 2013, the company has drawn down an aggregate of £1,450,000 under the SEDA. During 2013, the Company issued 13,975,276 common shares under the SEDA at an average price of £0.965 per share for gross proceeds of \$2,154,210. The SEDA expires on November 23, 2015. The Company did not draw down on the SEDA facility during the first six months of 2014.

Convertible Loan

On November 1, 2013, the Company borrowed \$4,338,264 from Yorkville pursuant to the Convertible Loan. As at June 30, 2014, principal payments of \$2,833,115 had been applied to the Convertible Loan, leaving a remaining balance of \$1,505,149. On July 21, 2014, the Company voluntarily prepaid all amounts owed under the Convertible Loan. The prepayment amount of \$1,676,777 consisted of the outstanding principal of \$1,505,149, a prepayment penalty of \$150,515 and accrued interest of \$21,113.

Equity Adjustment Agreement

The Company entered into an Equity Adjustment Agreement (the "Adjustment Agreement") on March 5, 2013 as amended with Yorkville in conjunction with the SEDA. Pursuant to the Adjustment Agreement, during the three months ended June 30, 2013, the Company issued 3,846,154 common shares to Yorkville at a price of £0.13 per share for aggregate proceeds of £500,000. The proceeds were subject to adjustment as more particularly described under note 9 of the Company's financial statements for the three month period ending June 30, 2014.

Transactions with Related Parties

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.

In 2010, Singular Oil & Gas Sands, LLC ("Singular") agreed to participate in the drilling of the Matthys McMillan Gas Unit #2 and the O B Ranch #1 wells located in Wharton County, Texas. Under the terms of that agreement, Singular paid 14.01% of the drilling costs through completion to earn a 10.23% net revenue interest on the Matthys McMillan Gas Unit #2 well and paid 12.5% of the drilling costs to earn a 6.94% net revenue interest on the O B Ranch #1 well. 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 is a related party as it is a company under common control with Zoneplan Limited, which is a significant shareholder of Caza.

Summary of Quarterly Results

	Three months ended June 30, 2014	Three months ended March 31, 2014	Three months ended December 31, 2013	Three months ended September 30, 2013
Petroleum and natural gas sales	6,286,049	4,591,507	3,381,486	2,583,753
Net income (loss)	(763,150)	(1,454,212)	(2,851,860)	(1,370,132)
Per share - basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)
Funds flow from operations (See note) (1)	1,732,253	895,735	276,913	(128,852)
Per share - basic and diluted	0.00	0.00	0.00	(0.00)
Net capital expenditures	13,681,171	9,616,646	10,031,758	19,190,280
Average daily production (boe/d)	937	685	503	397
Weighted average shares outstanding	199,323,039	187,917,370	182,965,097	177,701,939
	Three months ended June 30, 2013	Three months ended March 31, 2013	Three months ended December 31, 2012	Three months ended September 30, 2012
Petroleum and natural gas sales	1,067,991	1,279,296	1,580,214	902,622
Net income (loss)	(3,039,336)	(1,313,035)	(4,384,653)	(2,203,998)
Per share - basic and diluted	(0.02)	(0.01)	(0.03)	(0.01)
Funds flow from(used in) operations (See note) (1)	(1,277,772)	(378,779)	248,624	(926,578)
Per share - basic and diluted	(0.00)	(0.00)	0.00	0.02
Net capital expenditures	5,275,110	2,563,410	7,341,110	2,391,421
Average daily production (boe/d)	223	230	312	239
Weighted average shares outstanding	170,879,773	165,867,263	164,743,667	164,743,667

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

Factors that have caused variations over the quarters:

- Revenues and operating netback (Non-IFRS) has generally increased as a result of the Company's increased oil production.
- During 2013 and through the period ended June 30, 2014 Caza drilled 22 (8.140 net) wells completing 17 (5.728 net) wells, with one well (0.525 net) drilling and 3 (1.885 net) wells undergoing completion activities as at June 30, 2014.
- Capital expenditures increased during the second half of 2013 and the first quarter of 2014 as the Company deployed capital made available under the Note Purchase Agreement and other funding arrangements.

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, share price 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. See notes 8 and 9 of the Company's financial statements for the three month period ended June 30, 2014 and the disclosure under the heading "Gain (Loss) on Risk Management Contracts" herein for further details of the Company's financial instruments.

Critical Accounting Estimates

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

Reserves - The Company engages independent qualified reserve evaluators to evaluate its reserves each

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

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

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

Stock based Compensation - The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. This model is used to value the stock options granted. In addition, option pricing models require the input of highly subjective assumptions including the expected stock price volatility. Changes in the subjective input assumptions can materially affect the fair value estimates as reflected in the consolidated financial statements

Critical Accounting Estimates

Certain of our accounting policies require that we make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. For a discussion about those accounting policies, please refer to our annual management's discussion and analysis and Note 2 of the corresponding audited consolidated financial statements for the year ended December 31, 2013 available at www.sedar.com

Recent Accounting Pronouncements

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

Each of the additional new standards outlined below is effective for annual periods beginning on or after January 1, 2013 (with the exception of IFRS 9, which is effective for annual periods beginning on or after January 1, 2015). The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

Effective January 1, 2013, Caza adopted IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements, IFRS 12 "Disclosure of Interests in Other Entities", and the amendments to IAS 28 "Investments in Associates and Joint Ventures."

There were no changes to the consolidated financial statements or the consolidation process as a result of adoption of IFRS 10. IFRS 11 classifies interests in joint arrangements as joint ventures or joint operations depending on the rights and obligations of the parties in the arrangement. Caza performed a review of interests in joint arrangements and concluded that shared wells operate as joint operations and accordingly there is no change in the accounting for these assets as a result of adoption of this standard. As a result, there were no changes as a result of the adoption of IFRS 12 as well.

Furthermore Caza was also required to adopt IFRS 13 "Fair Value Measurements," amendments to IAS 1 "Presentation of Financial Statements," amendments to IFRS 7 "Financial Instruments: Disclosures." There were no material changes as a result of the adoption of these standards.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as

well as regulatory developments as issued by the CSA, which may affect the timing, nature or disclosure of its adoption of IFRS.

RISK FACTORS

For a discussion about risk and uncertainties, please refer to our Management's Discussion and Analysis and Annual Information Form for the year ended December 31, 2014 available at www.sedar.com.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting (ICFR), as such term is defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for Caza. They have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There were no changes in our ICFR during the period beginning on April 1, 2014 and ending on June 30, 2014 that materially affected, or are reasonably likely to materially affect, Caza's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

ADDITIONAL INFORMATION

Further information regarding the Company, including its Annual Information Form, can be accessed under the Company's public filings found at <http://www.sedar.com> and on the Company's website at www.cazapetro.com.

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