

13 December 2005

CASPIAN ENERGY INC.

Caspian Energy Inc. announces third quarter results

Caspian Energy Inc. (the "Company" or "CEK") (TSX and AIM: CEK), an oil exploration and development corporation operating in the Republic of Kazakhstan, announced today its financial results for the three months ending October 31, 2005 (3Q 06).

Caspian's first exploration well, East Zhagabulak #301 has been drilled and the results of flow tests are expected before the end of December 2005. For the three months and nine months ending October, 2005 (the Company' third quarter of fiscal 2006), CEK's net loss was \$1,858,266 and \$8,692,830 respectively. Large non-cash items equal to \$673,354 and \$3,589,794 relating to stock-based compensation charges (value assigned using the Black-Scholes valuation model) and \$1,071,839 and \$4,319,033 pertaining to unrealized foreign exchange losses were major components of this figure.

CEK's operations generated \$164,214 for the three month period and used \$230,804 for the nine month period. The Company's working capital was \$15million at the close of the quarter.

Oil and gas revenues before transportation costs for the reporting periods were \$843,847 and \$2,014,464.

For the third quarter, operating costs were \$343,008 and transport costs were \$2,384. Administrative expenses for the quarter were \$565,679.

Capital expenditures totalled \$9,233,035 and \$15,366,726 for the three and nine months. Capital expenditures are composed of advances to Aral Petroleum Capital joint venture and the Company's share of the expenditure of funds by Aral.

The unaudited consolidated Q3 financial statements for the period have been filed with Canadian securities regulatory authorities and are available for viewing at www.sedar.com.

A full Management's Discussion and Analysis document is available on the Company's website, www.caspianenergyinc.com, and on SEDAR, www.sedar.com. The document can also be obtained on application from the Company.

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FORWARD-LOOKING STATEMENTS & OTHER INFORMATION

Certain statements contained in this release constitute forward-looking statements. Forward-looking statements are included under “Business Prospects and Outlook” and elsewhere in this results statement. These statements relate to future events or the Company’s future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this release include, but are not limited to, statements with respect to: the performance characteristics of the Company’s oil and natural gas properties; drilling plans and the timing and location thereof; plans for the exploration and development of the North Block; plans for seismic acquisition and surveys; production capacity and levels, and the timing of achieving such capacity and levels; the level of expenditures for compliance with environmental regulations; the size of oil and natural gas reserves; projections of market prices and costs; supply and demand for oil and natural gas; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; and capital expenditure programs.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking statements contained in this results statement. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this release include, but are not limited to: volatility of oil and natural gas prices; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, technical, drilling and processing problems; fluctuations in currency and interest rates; product supply and demand; risks inherent in the Company’s foreign operations; changes in environmental and other regulations or the interpretation of such regulations; political and economic conditions in the Republic of Kazakhstan; and the other factors discussed in this results statement.

Statements relating to “reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements contained in this release are expressly qualified by this cautionary statement.

Finally, in the presentation of its financial results, Caspian uses two terms that are universally applied in analyzing corporate performance within the oil and gas industry but which regulators require that we provide disclaimers.

Barrel of Oil Equivalent (BOE) – The oil and gas industry commonly expresses production volumes and reserves on a “barrel of oil equivalent” basis (“BOE”) whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparisons with other industry participants. Throughout its financial results, Caspian has used the 6:1 BOE measure which is the approximate energy equivalency of the two commodities at the burner tip. BOE does not represent a value equivalency at the plant gate, which is where Caspian sells its production volumes, and therefore may be a misleading measure if used in isolation.

Cash Flow from Operations (cash flow) – This measure is considered critical within the oil and gas industry both in terms of measuring success in our historical operations and being an indicator of funding sources for on-going efforts to replace production volumes and increase reserve volumes. Canadian GAAP requires that “cash flow from operating activities” be the measurement focus. This latter term is derived from “cash flow” as defined by Caspian adjusted for the change in non-cash working capital. Caspian believes “cash flow” and “cash flow per share” to be more meaningful measures of our performance and therefore have used these terms throughout this results statement. Accordingly, we are required to advise the reader that: (a) these are non-GAAP measure for purposes of Canadian accounting standards and (b) our determinations may not be comparable to those reported by other companies.

Review of Operations

East Zhagabulak (EZ)

To date, the initial 3-D seismic program covering 406 square kilometres has been completed, processed and interpreted, indicating significant structures. Processing through Pre-Stack Time Migration (PSTM) of the Zhagabulak 3-D seismic data set was completed at the end of August 2005. The processing was performed by PGD-Dank (a division of Paradigm Geophysical) in Almaty, Republic of Kazakhstan ("ROK"). Following processing, the data set was transferred to Halliburton's Landmark Geophysical office in Moscow, Russia for interpretation. Processing through Pre-Stack Depth Migration (PSDM) continues at the end of the third quarter. The presence of a broad, extensive structure separating Zhagabulak from neighboring producing fields has been noted and several potential drilling locations have been identified. The location for the first well on the block, EZ#301, was chosen from an earlier fast-track interpretation of the data set, 1.1 km southwest of well EZ#213. A contract with Nabors Drilling International was concluded in April 2005 and the well spud on July 16, 2005. The well was still drilling at the end of the third quarter. A second location, EZ#302 was selected and a site prepared for the drilling rig. The location is 3.6 km. southwest of EZ#301 and appears structurally updip to that well. EZ#302 is expected to spud prior to December 31, 2005.

Baktygaryn

The Baktygaryn Area is located in the northwestern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 863 million barrels of oil in place with 259 million barrels classified as recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but expects to validate this data through its exploration program.

The tender for the acquisition of 235 square kilometres of 3-D seismic was released and responses were received. In September 2005, Azimut Energy Services began work in the Baktygaryn Area. The acquisition program was completed during November 2005. The Baktygaryn Area is anticipated to contain drilling targets in both the below salt Carboniferous section and the above salt Mesozoic section and will provide a second tier of exploration to the Company's drilling portfolio.

BUSINESS PROSPECTS AND OUTLOOK

The Company has been successful in establishing itself as an operating entity in the ROK and expects to continue with future growth through continued work there.

Subsequent to the end of the third quarter, EZ#301 was drilled to a total depth of 4,846 metres and logged. The Company ran production casing and is currently flow-testing the well. It will be completed with the drilling rig before the rig is moved to the EZ#302 location. EZ#301 will be tied-in to the Zhagabulak production facility following the test period. A two week rig move from EZ#301 to EZ#302 is anticipated following completion of EZ#301, placing the scheduled spud date of EZ#302 in December 2005. Logging analyses have suggested that bypassed pay may exist in wells EZ#211 and EZ#213, which were drilled during the Soviet period. Caspian will investigate this opportunity during calendar 2006.

Landmark's interpretation of the PSTM seismic data set at Zhagabulak was completed in early November 2005 and efforts for the remainder of the 2005 fiscal year will focus on completing the interpretation of the PSDM data set by year-end. Internal interpretation is also ongoing and expected to be completed by December. Logging, coring and well test data from EZ#301 will be incorporated into the understanding of the targeted Carboniferous reservoirs.

Ongoing petrophysical analyses of all wells penetrating the below salt reservoirs is expected to be partially completed by year-end and correlations of these wells will aid in the identification of future drilling locations in the North Block. Identification and acquisition of well data within the extended territory will also be evaluated for inclusion into this process.

Reprocessing and interpretation of the existing Soviet 2-D seismic data will continue and the interpretation of that data will be added to the evaluation of the North Block and aid in the identification of future seismic acquisition areas and drilling locations.

The Baktygaryn 3-D seismic program was completed in early November 2005. PGS-GIS, in Almaty, ROK was awarded the processing contract. Due to the presence of large salt bodies in the Baktygaryn Area, the 3-D data set will be processed through PSDM. Completion of processing and interpretation of this data will take place in early 2006.

The company announced on the 1st December 2005 that it intends to change its fiscal year end date from January 31 to December 31 commencing with the year starting February 1, 2005. The Company is planning to release results for the eleven month period to the end of December 2005, and will then revert to reporting for the twelve month period to 31 December 2006.

Consolidated Balance Sheet (Unaudited)

	October 31, 2005	January 31, 2005
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	20,796,409	43,066,470
Accounts receivable	650,495	181,387
Prepays and other deposits	2,743,751	486,992
Other assets	11,731	11,731
	<hr/>	<hr/>
	24,202,386	43,746,580
Property, plant and equipment (note 3)	55,795,429	40,419,409
Less: Accumulated depletion and depreciation	(196,499)	(76,139)
	<hr/>	<hr/>
	55,598,930	40,343,270
	<hr/>	<hr/>
	79,801,316	84,089,850
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,308,449	1,366,096
Loan payable (note 7)	6,921,372	7,336,841
	<hr/>	<hr/>
	9,229,821	8,702,937
Asset retirement obligation (note 4)	71,541	70,540
Future income taxes	1,086,509	644,376
	<hr/>	<hr/>
	10,387,871	9,417,853
Shareholders' Equity		
Share capital (note 5)	75,220,762	75,376,278
Warrants to purchase common shares (note 6)	667,738	667,738
Contributed surplus (note 6)	7,219,230	3,629,436
Deficit	(13,694,285)	(5,001,455)
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	69,413,445	74,671,997
	<hr/>	<hr/>
	79,801,316	84,089,850

Consolidated Statement of Loss and Deficit (Unaudited)

	Three months October 31, 2005 \$	Three months October 31, 2004 \$	Nine months ended October 31, 2005 \$	Period from A October 31, 2004 \$
Revenue				
Oil and gas revenue, net	843,847	640,781	2,014,464	891,521
Interest	231,438	42,782	935,824	43,902
	<u>1,075,285</u>	<u>683,563</u>	<u>2,950,288</u>	<u>935,423</u>
Expenses				
General and administrative	565,679	705,818	2,070,902	1,542,058
Operating	343,008	184,854	1,098,557	257,188
Transportation	2,384	852	11,633	1,185
Stock-based compensation (note 6)	673,354	3,157,292	3,589,794	3,157,292
Unrealized foreign exchange loss	1,071,839	1,185,222	4,319,033	1,185,222
Depletion, depreciation and accretion	37,173	22,046	111,066	30,672
	<u>2,693,437</u>	<u>5,256,084</u>	<u>11,200,985</u>	<u>6,173,617</u>
Loss before income taxes	(1,618,152)	(4,572,521)	(8,250,697)	(5,238,194)
Future income taxes	240,114	-	442,133	-
Net loss for the period	(1,858,266)	(4,572,521)	(8,692,830)	(5,238,194)
Deficit – Beginning of period	(11,836,019)	(665,673)	(5,001,455)	-
Deficit – End of period	<u>(13,694,285)</u>	<u>(5,238,194)</u>	<u>(13,694,285)</u>	<u>(5,238,194)</u>
Basic and diluted loss per share (note 5)	<u>(0.02)</u>	<u>(0.08)</u>	<u>(0.10)</u>	<u>(0.09)</u>

Consolidated Statement of Cash Flow (unaudited)

	Three months October 31, 2 \$	Three months October 31, 2 \$	Nine months ended October 31, 2005 \$	Period from A October 31, 2 \$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(1,858,266)	(4,572,521)	(8,692,830)	(5,238,194)
Items not affecting cash				
Stock-based compensation	673,354	3,157,292	3,589,794	3,157,292
Unrealized foreign exchange loss	1,071,839	1,185,222	4,319,033	1,185,222
Depletion, depreciation and accretion	37,173	22,046	111,066	30,672
Future income taxes	240,114	-	442,133	-
	164,214	(207,961)	(230,804)	(865,008)
Changes in non-cash working capital balances	(215,986)	-	(469,108)	-
	(51,772)	(207,961)	(699,912)	(865,008)
Financing activities				
Loan payable	(340,755)	-	(415,469)	-
Foreign exchange	(1,071,839)	(1,185,222)	(4,319,033)	(1,185,222)
Issuance of common shares	-	51,469,134	135,301	64,538,112
Share issue expenses	-	(6,036,478)	(290,817)	(6,047,652)
	(1,412,594)	44,247,434	(4,890,018)	57,305,238
Investing activities				
Acquisition of property, plant and equipment	(9,233,035)	(4,412,109)	(15,366,726)	(17,197,854)
Business acquisition	-	2,301,250	-	2,301,250
Asset retirement	(228)	-	1,001	-
Changes in non-cash working capital balances	(432,168)	615,912	(1,314,406)	1,192,507
	(9,665,431)	(1,494,947)	(16,680,131)	(13,704,097)
(Decrease) increase in cash and cash equivalents	(11,129,797)	42,544,526	(22,270,061)	42,736,133
Cash and cash equivalents – Beginning of period	31,926,206	191,607	43,066,470	-
Cash and cash equivalents – End of period	20,796,409	42,736,133	20,796,409	42,736,133
Interest paid and received				
Interest paid	-	-	-	-
Interest received	293,737	39,199	941,223	39,199

**Notes to the Consolidated Financial Statements
(Unaudited)
October 31, 2005**

1 Nature of operations

The Company is engaged in the exploration for and development and production of oil and gas in the Republic of Kazakhstan. Its primary operating activities are carried out through its wholly-owned subsidiary, Caspian Energy Ltd. ("Caspian Ltd.").

Caspian's principal assets are a 50% indirect interest in Aral Petroleum Capital LLP ("Aral"), held by Caspian Ltd., and a temporary 100% beneficial interest in the currently producing well of Aral. Through its interest in Aral, Caspian has the right to explore and develop certain oil and gas properties in Kazakhstan, known as the North Block, a 3,458 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company also has minor resource interests in Canada.

Aral's exploration and development rights to the North Block were granted pursuant to the terms of an exploration contract between the government of Kazakhstan and Aral (the "Exploration Contract"). The initial three-year term of the Exploration Contract has been extended for a two-year period (expiring in December 2007) and is subject to a further extension of two years thereafter, in accordance with the terms of the contract.

Under the terms of the Exploration Contract, Aral is obligated to spend at least US\$20.8 million under a minimum work program in respect of the North Block during the initial three-year term of the contract. The expenditures include processing and reinterpretation of geological and geophysical data of prior years, two dimensional and three dimensional seismic shoots and surveys, drilling exploration wells, well reactivations and well surveys and testing. As of October 31, 2005, Aral's financial obligation under the minimum work program has been discharged.

Under terms of a shareholders' agreement dated June 25, 2004, among Caspian Ltd., Azden Management Limited ("Azden") and Aral, Caspian is committed to fund Aral's US\$20.8 million obligation under the initial work program. This financial commitment has been satisfied, in full, by the Company. In addition, Caspian has undertaken, on a best efforts basis, to raise financing of US\$84.0 million to fund Aral's operations pursuant to the Exploration Contract.

Caspian was incorporated on April 13, 2004, accordingly, the comparative figures presented in these financial statements reflect the period from incorporation to October 31, 2004.

2 Significant accounting policies

The consolidated financial statements of Caspian are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term investments with an initial maturity date of three months or less.

Joint ventures

The Company's oil and gas exploration and development activities are conducted mainly in Kazakhstan through its 50% indirect interest in Aral and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Property, plant and equipment

a) Capitalized costs

The Company follows the full cost method of accounting for oil and natural gas operations, whereby all costs related to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, the cost of petroleum and natural gas production equipment and overhead charges directly related to exploration and development activities. Proceeds from the sale of oil and gas properties are applied against capital costs, with no gain or loss recognized, unless such a sale would change the rate of depletion and depreciation by 20% or more, in which case, a gain or loss would be recorded.

b) Depletion, depreciation and amortization

The capitalized costs are depleted and depreciated using the unit-of-production method based on proven petroleum and natural gas reserves, as determined by independent consulting engineers. Oil and natural gas liquids reserves and production are converted into equivalent units of natural gas based on relative energy content.

c) Ceiling test

The Company follows the Canadian accounting guideline on full cost accounting. In applying this full cost guideline, Caspian calculates its ceiling test for each cost centre by comparing the carrying value of oil and natural gas properties and production equipment to the sum of undiscounted cash flows expected to result from Caspian's proved reserves. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying value of oil and gas properties and production and equipment to the estimated net present value of future cash flows from proved plus probable reserves using a risk-free interest rate and expected future prices. Any excess carrying value above the net present value of the future cash flows is recorded as a permanent impairment.

Costs of acquiring and evaluating unproven properties in Canada and costs of exploration and land in international cost centres are excluded initially from costs subject to depletion, until it is determined whether or not proved reserves are attributable to the properties or, in the case of major development projects, commercial production has commenced, or impairment has occurred. Impairment occurs whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When proven reserves are determined or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion for the country's cost centre. Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

d) Unproved property

Costs of acquiring and evaluating unproven properties in Canada and costs of exploration and land in Kazakhstan are initially excluded from costs subject to depletion, until it is determined whether or not proved reserves are attributable to the properties or, in the case of major development projects, commercial production has commenced, or impairment has occurred. Impairment occurs whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When proven reserves are determined or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion for that country's cost centre.

e) Asset retirement obligation

The Company has adopted the Canadian accounting standard for asset retirement obligations. In accordance with the new standard, Caspian records the fair value of an asset retirement obligation ("ARO") as a liability in the period in which it incurs a legal obligation to restore an oil and gas property, typically when a well is drilled or other equipment is put in place. The associated asset retirement costs are capitalized as part of the carrying amount of the related

asset and depleted using a unit-of-production method over the life of the proved reserves. Subsequent to initial measurement of the obligations, the obligations are adjusted at the end of each reporting period to reflect the passage of time and changes in estimated future cash flows underlying the obligation. Actual costs incurred on settlement of the ARO are charged against the ARO.

Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value amount on the balance sheet are used to calculate future income tax assets and liabilities. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Stock-based compensation

The Company grants options to purchase common shares to employees and directors under its stock option plan. The Company has adopted the new Canadian accounting standard relating to stock-based compensation and other stock-based payments as it applies to stock-based compensation granted to employees, officers and directors. Under this standard, future awards are accounted for using the fair value of accounting for stock-based compensation. Under the fair value method, an estimate of the value of the option is determined at the time of grant using a Black-Scholes option-pricing model. The fair value of the option is recognized as an expense and contributed surplus over the vesting period of the option. Proceeds received on exercise of stock options, along with amounts previously included in contributed surplus, are credited to share capital.

Revenue recognition

Revenue from the sale of oil and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating and maintenance costs, transportation, and production-based royalty expenses will be recognized in the same period in which the related revenue is earned and recorded.

Measurement uncertainty

The amounts recorded for depletion and depreciation of property, plant and equipment, the provision for asset retirement obligations and the amounts used for ceiling test calculations are based on estimates of reserves and/or future costs. The Company's reserve estimates are reviewed annually by an independent engineering firm. The amounts disclosed relating to fair values of stock options issued are based on estimates of future volatility of the Company's share price, expected lives of options, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty.

Earnings (loss) per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method whereby the weighted average number of shares is adjusted for the dilutive effect of options.

Foreign currency

All operations are considered financially and operationally integrated. Results of operations are translated to Canadian dollars, using average rates for revenues and expenses, except depreciation which is translated at the rate of exchange applicable to the related assets. Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are recorded in the statement of operations.

3 Property, plant and equipment

All of the Company's property, plant and equipment at October 31, 2005, relates to petroleum and natural gas properties, the majority of which relates to the Exploration Contract.

The majority of the Company's property, plant and equipment is under development, with \$684,259 of costs being subject to depletion and depreciation for 2006.

During the nine month period ended October 31, 2005, the Company capitalized \$381,328 general and administrative expenses related directly to exploration and development activities.

4 Asset retirement obligation

The Company records the fair value of asset retirement obligations as a liability in the period in which it incurs the legal obligation.

The asset retirement obligation results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at October 31, 2005 is approximately US\$100,000, which will be incurred between 2014 and 2019. A credit-adjusted risk-free rate was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligation is provided below:

	\$
Balance – January 31, 2005	70,540

Expenditures	<u>(188)</u>
Balance – April 30, 2005	70,352
Accretion	<u>1,417</u>
Balance – July 31, 2005	71,769
Expenditures	<u>(228)</u>
Balance – October 31, 2005	<u>71,541</u>

Under the terms of the Exploration Contract (note 1), the Company is required to create a fund to finance actual future restoration costs, equal to 1% of the capital costs of exploration. At October 31, 2005, \$89,645 has been placed in a restricted bank account related to the funding requirement.

5 Share capital

Authorized

Unlimited number of voting common shares, without stated par value

Issued

	Number of shares	Amount \$
Issued and outstanding as at January 31, 2005	84,122,163	75,376,278
Exercise of warrants (i)	205,000	135,300
Share issue costs (ii)	-	(3,784)
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Issued and outstanding as at April 30, 2005	84,327,163	75,507,794
Share issue costs (ii)	-	(287,032)
	<hr/>	<hr/>
Issued and outstanding as at July 31, 2005 and October 31, 2005	<u>84,327,163</u>	<u>75,220,762</u>

i) During the nine months period, 205,000 warrants were exercised. The warrants had an exercise price of \$0.66 per common share.

ii) Share issue costs have not been tax-effected.

Stock options

The Company has a stock option plan (the "Plan") under which it may grant options to directors, officers and employees for the purchase of up to 15% of the number of common shares outstanding from time to time. Options are granted at the discretion of the board of directors. The exercise price, vesting period and expiration period are also fixed at the time of grant at the discretion of the Board of Directors and in accordance with the terms of the Plan.

Changes to the Company's stock options are summarized as follows:

	Number of options	Weighted average option price \$
Balance – January 31, 2005	7,173,228	1.76
Granted	1,993,271	1.69
Exercised	-	-
Expired	-	-
	<hr/>	<hr/>
Balance – October 31, 2005	<u>9,166,499</u>	<u>1.75</u>
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Exercisable – October 31, 2005	<u>7,325,128</u>	<u>1.75</u>

The following is a summary of stock options outstanding and exercisable as at October 31, 2005:

Range of exercise price	Options outstanding		Options exercisable	
	Options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Options exercisable
\$0.75	2,079,090	4.2	\$0.75	1,483,181
\$1.61	843,271	4.7	\$1.61	843,271
\$1.75	1,150,000	4.7	\$1.75	916,667
\$2.00	1,050,000	4.4	\$2.00	262,500
\$2.15	4,044,138	4.2	\$2.15	3,819,509
	<u>9,166,499</u>		<u>\$1.75</u>	<u>7,325,128</u>

Per share amounts

The weighted average number of common shares outstanding during the period ended October 31, 2005 of 84,327,163 was used to calculate earnings per share amounts.

Warrants

205,000 share purchase warrants entitling the holder to purchase one common share at a price of \$0.66 were exercised during the first quarter. No value was ascribed to the warrants at the date of grant. 1,368,000 broker warrants are outstanding at October 31, 2005. Each warrant entitles the holder to purchase one common share at a price of \$2.00 until September 20, 2006. The fair value of the warrants using the Black-Scholes method was \$667,738.

6 Stock-based compensation

Options granted to both employees and non-employees are accounted for using the fair value method. The fair value of common share options amortized in the quarter ended October 31, 2005 was estimated to be \$673,354 as at the grant date using a Black-Scholes option-pricing model and the following assumptions:

Risk free interest rate	3%
Expected life	5 year average
Expected volatility	72%
Expected dividend yield	0%

The estimated fair value of the options is amortized to expense and credited to contributed surplus over the option vesting period on a straight-line basis.

7 Loan payable

Aral is indebted to Azden, which holds the other 50% interest in Aral, in the amount of \$6,921,372. The amount is non-interest bearing and was to be repaid prior to January 1, 2006. Caspian is obligated to fund Aral's operations, consequently \$6,921,372 has been added to property, plant and equipment of Caspian and shown as a current liability. During November 2005, Aral agreed to defer the repayment obligation of this loan to April 2006.

8 Financial instruments

Caspian's financial instruments included in the consolidated balance sheet are comprised of cash and cash equivalents, accounts receivable, other deposits, accounts payable and loan payable. The fair values of these financial instruments approximate their carrying amounts due to the short-term nature of the instruments.

9 Foreign exchange risk

A substantial portion of Caspian's activities are settled in foreign currencies and consequently, the Company is subject to fluctuations in currency translation rates.

10 Segmented information

The Company's activities are conducted in two geographic segments: Canada and Kazakhstan. All activities relate to exploration for and development of petroleum and natural gas.

	Canada \$	Kazakhstan \$	Total \$
Revenue	973,286	1,977,002	2,950,288
Expenses	9,806,632	1,394,353	11,200,985
Income taxes	-	442,133	442,133
Net loss	(8,833,346)	140,516	(8,692,830)
Capital expenditures	-	15,366,726	15,366,726

11 Reconciliation of International Financial Reporting Standards

The Company has evaluated and determined there are no significant differences between Canadian generally accepted accounting principles and International Financial Reporting Standards. Accordingly, no differences in the Company's reported financial position at October 31, 2005 or results of operations or cash flows for the period ended October 31, 2005 have been presented.