

## CASPIAN ENERGY INC.

### MANAGEMENT INFORMATION CIRCULAR

MAY 21, 2008

### SOLICITATION OF PROXIES

This management information circular (the "Circular") is furnished in connection with the solicitation by the management of Caspian Energy Inc. (the "Corporation") of proxies to be used at the annual meeting (the "Meeting") of shareholders ("Shareholders") of the Corporation to be held at the National Club, 303 Bay Street, Toronto, Ontario M5H 2R1 on Tuesday, June 24, 2008, at 3:30 p.m. (Toronto time). References in this Circular to the Meeting include any adjournment or adjournments thereof. It is expected that the solicitation will be primarily by mail, however, proxies may also be solicited personally by management, employees or agents of the Corporation. The cost of solicitation will be borne directly by the Corporation. The information provided in this Circular is as of May 21, 2008, unless indicated otherwise.

### APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Corporation. **A shareholder has the right to appoint a person or Corporation, who need not be a shareholder of the Corporation, other than the persons named in the enclosed form of proxy, to represent the shareholder at the Meeting or any adjournment thereof.** Such right may be exercised either by inserting such person's name in the blank space provided in the form of proxy and striking out the names of management's nominees, or by completing another proper form of proxy and, in either case, depositing the completed proxy at the office of the transfer agent, Equity Transfer & Trust Company, 200 University Avenue, Suite 400, Toronto, Ontario M5H 4H1, not later than 48 hours (excluding Saturdays and holidays) before the time of the Meeting or any adjournment thereof.

A shareholder who has given a proxy has the power to revoke it as to any matter on which a vote has not already been cast pursuant to the authority conferred by the proxy and may do so either: (a) by delivering another properly executed form of proxy bearing a later date and depositing it as aforesaid; or (b) by depositing an instrument in writing revoking the proxy executed by the shareholder: (i) with the transfer agent indicated on the enclosed envelope at any time up to and including 5:00 p.m. (Toronto time) on the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used; (ii) with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, prior to the commencement of the Meeting or any adjournment thereof; or (iii) in any other manner permitted by law.

### VOTING OF PROXIES

The common shares ("Common Shares") of the Corporation represented by proxies in favour of management nominees will be voted or withheld from voting in accordance with the instructions of the shareholder on any ballot that may be called for and, if a shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the Common Shares represented by the proxy shall be voted accordingly. **Where shareholders have properly executed proxies in favour of the persons named in the enclosed form of proxy and have not specified in the form of proxy the manner in which the named proxies are required to vote the shares represented thereby, such Common Shares will be voted FOR: (i) the election of directors; and (ii) the appointment of auditors the Corporation as further described herein.** The enclosed form of proxy also confers discretionary authority upon the

**persons named therein to vote with respect to any amendments or variations to the matters identified in the Notice of Meeting and with respect to any other matters which may properly come before the Meeting in such manner as such nominee in his judgment may determine.** At the time of printing this Circular, management of the Corporation knew of no such amendments, variations or other matters to come before the Meeting.

### NON-REGISTERED HOLDERS

Only registered Shareholders, or the persons they appoint as their proxies, are permitted to vote at the Meeting. Non-Objecting Beneficial Owners (“**NOBOs**”) may also vote at a meeting when the Corporation chooses to mail to NOBOs directly.

These securityholder materials are being sent to both registered and non-registered owners of the securities. If you are a non-registered owner, and the Corporation or its agent has sent these materials directly to you, your name and address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary (“**Intermediary**”) holding on your behalf.

By choosing to send these materials to you directly, the Corporation (and not the Intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions.

If you have received the Corporation’s form of proxy, you may return it to Equity Transfer & Trust Company: (i) by regular mail in the return envelope provided, or (ii) by fax at (416) 595-9593.

Objecting Beneficial Owners (“**OBOs**”) and other beneficial holders receive a Voting Instruction Form (“**VIF**”) from an Intermediary by way of instruction of their financial institution. Detailed instructions of how to submit your vote will be on the VIF.

**In either case, the purpose of this procedure is to permit non-registered holders to direct the voting of the Common Shares they beneficially own. Should a non-registered holder who receives either form of proxy wish to vote at the Meeting in person, the non-registered holder should strike out the persons named in the form of proxy and insert the non-registered holder’s name in the blank space provided.** Non-registered holders should carefully follow the instructions of their Intermediary including those regarding when and where the form of proxy or VIF is to be delivered.

### VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The authorized capital of the Corporation consists of an unlimited number of Common Shares, of which, as at May 21, 2008, 104,343,263 Common Shares<sup>1</sup> were issued and outstanding. Each Common Share carries the right to one vote at the Meeting.

The Corporation has asked Equity Transfer & Trust Company to prepare a list of all persons who were registered holders of Common Shares on May 23, 2008 (the “**Record Date**”) and the number of Common Shares registered in the name of each such person on that date. Each holder of Common Shares named in

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<sup>1</sup> The Corporation has announced a rights offering for up to 17,390,543 Common Shares and 8,695,271 warrants to purchase Common Shares which is scheduled to close shortly after the Record Date for the Meeting. Details of the rights offering can be found in the Corporation’s rights offering circular filed under the Corporation’s profile at [www.sedar.com](http://www.sedar.com).

the list on the Record Date will be entitled to vote the Common Shares registered in the holder's name on the list at the Meeting, either in person or by proxy.

To the knowledge of the directors and senior officers of the Corporation, as at May 21, 2008, no person or corporation beneficially owns, directly or indirectly, or exercises control or direction over voting securities carrying more than 10% of the voting rights attached to any class of outstanding voting securities of the Corporation entitled to be voted at the Meeting.

## BUSINESS OF THE MEETING

### Financial Statements

The consolidated financial statements of the Corporation for the year ending December 31, 2007, together with the auditor's report thereon, which are contained in the Corporation's most recent Annual Report and have been mailed to shareholders, will be placed before the shareholders at the Meeting.

### Election of Directors

At the Meeting, shareholders will be asked to elect seven directors to the Corporation's board of directors. Each director will hold office until the next annual meeting of shareholders or until a successor is appointed or elected. Proxies in favour of management's nominees ("Nominees") will be voted **FOR** the election of the proposed nominees in the absence of directions to the contrary from shareholders. Management of the Corporation does not contemplate that any of the Nominees will be unable to serve as a director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for other Nominees in their discretion.

The following table indicates the name, province or state and country of residence, and principal occupation during the last five years of, and, as at May 21, 2008, the number of voting securities of the Corporation beneficially owned, directly or indirectly, or over control or direction is exercised by, each of the proposed Nominees to the board of directors.

Name and Place of Residence	Director Since	Principal Occupation for the Past Five Years	Number of Common Shares Beneficially Owned or Over Which Control or Direction is Exercised <sup>(1)</sup>
William A.G. Ramsay Cascais, Portugal	2004	Chairman and Chief Executive Officer of the Corporation from April 2007 to present and Chairman, President and Chief Executive Officer of the Corporation from September 2004 to April 2007. President and Chief Executive Officer of Caspian Energy Ltd. from April 2004 to present. Prior thereto and since 1997, Mr. Ramsay was engaged in private equity investments primarily in Kazakhstan.	2,072,727
Charles J. Summers <sup>(9)</sup> Texas, U.S.A.	2004	Chief Operating Officer of the Corporation from September 2004 to present, President of the Corporation from April 2007 to present and Chief Operating Officer of Caspian Energy Ltd. from June 2004 to present. Prior thereto, Mr. Summers was general manager for Kerr-McGee Oil & Gas Corporation (an oil and gas exploration and production corporation) for eight years in Kazakhstan.	Nil
Robert S. Pollock <sup>(3)(4)</sup> Ontario, Canada	2004	Financial consultant Primary Capital Inc. (2007 to present), limited market dealer. Senior Vice-President of Quest Capital Corporation (a merchant banking organization)	Nil

Name and Place of Residence	Director Since	Principal Occupation for the Past Five Years	Number of Common Shares Beneficially Owned or Over Which Control or Direction is Exercised <sup>(1)</sup>
		from September 2003 to 2006. Prior thereto, he was Vice-President of Investment Banking for Dundee Securities Corporation (an investment dealer).	
Robert D. Cudney <sup>(2)(3)(4)(5)(6)</sup> Ontario, Canada	2002	President and Chief Executive Officer of Northfield Capital Corporation (an investment corporation).	93,900
Gordon D. Harris <sup>(2)(4)(7)(9)</sup> Alberta, Canada	2004	President and Chief Executive Officer of Choice Resources Corp. (an oil and gas corporation) from February 2004 to date. From 1999 to 2003, he was President of Roseland Resources Ltd. (an oil and gas corporation).	27,300
John D. McBride <sup>(2)(3)(8)</sup> Ontario, Canada	2005	Managing Director of CC Capital Partners Group (a merchant bank) from 1988 to present.	Nil
Adil Mukhamedzhanov Almaty, Kazakhstan	2007	Vice-President of Economics and Finance of Aral Petroleum Capital LLP from March 2004 to present. Financial specialist at Kaz Trans Oil from January 1, 2003 to March 2004. Prior thereto, he was a student.	Nil

Notes:

<sup>(1)</sup>The information about Common Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, not being within the knowledge of the Corporation, has been furnished by the respective Nominees or obtained from the *System for Electronic Disclosure by Insiders* at [www.sedi.ca](http://www.sedi.ca).

<sup>(2)</sup>Member of the Audit Committee.

<sup>(3)</sup>Member of the Nominating and Compensation Committee.

<sup>(4)</sup>Member of the Corporate Governance Committee.

<sup>(5)</sup>Mr. Cudney was a director of Aspen Group Resources Corporation which became subject to a management cease trade order on May 21, 2003 and on May 19, 2004, in each case for failing to file financial statements. The cease trade orders were lifted on July 29, 2003 and July 20, 2004, respectively.

<sup>(6)</sup>93,900 of these Common Shares are held by Northfield Capital Corporation, a public corporation controlled by Mr. Cudney of which Mr. Cudney is an officer and director.

<sup>(7)</sup>16,500 of these Common Shares are held by Choice Resources Corp., a public corporation of which Mr. Harris is the President, Chief Executive Officer and a director.

<sup>(8)</sup>Mr. McBride is the nominee of Maurizio Barnaba. Pursuant to the purchase agreement dated June 11, 2004, as amended, among Caspian Energy Ltd. (now a wholly-owned subsidiary of the Corporation), Mr. Barnaba, Azden Management Limited, Aral Petroleum Capital JV (as it was then known), et al, providing for the acquisition by Caspian Energy Ltd. of its 50% ownership interest in Aral Petroleum Capital LLP, Mr. Barnaba is entitled to one nominee to the Corporation's board of directors.

<sup>(9)</sup>Member of the Reserves Committee.

Other than as set out in note (5) above, none of the Nominees are, as at the date of this Circular, or has been, within 10 years prior to the date of this Circular, a director, chief executive officer or chief financial officer any company (including the Corporation) that while that person was acting in that capacity: (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days; (ii) was subject to a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or (iii) while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any

proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

None of the Nominees are, as at the date hereof, or have been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

### Appointment of Auditors

Unless such authority is withheld, the persons named in the accompanying proxy intend to vote **FOR** the appointment of PricewaterhouseCoopers LLP, Chartered Accountants (“**PwC**”), as auditors of the Corporation to hold office until the next annual meeting of the Corporation’s shareholders, and to authorize the directors of the Corporation to fix their remuneration. PwC was first appointed as auditors of the Corporation on June 27, 2005. Deloitte and Touche LLP, Chartered Accountants, was appointed as auditors of the Corporation on December 5, 2004 in connection with the completion of the Corporation’s merger with Caspian Energy Ltd. and held office until PwC’s appointment.

### EXECUTIVE COMPENSATION

The following table provides compensation information for year ended December 31, 2007 for the Corporation’s then President and Chief Executive Officer, Chief Financial Officer and Chief Operating Officer (collectively referred to as the “**Named Executive Officers**”). For comparative purposes, compensation information for the Corporation’s 2006 and 2005 financial years is also provided for the Named Executive Officers. The Corporation had no other executive officers whose total salaries and bonuses exceeded \$150,000 during the financial period ended December 31, 2007 or during its 2006 or 2005 financial years.

#### Summary Compensation Table

Name and Position	Fiscal Year	Annual Compensation			Long Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation	Securities Under Options Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	
William A.G.	2007	\$321,456	Nil	Nil	1,000,000	Nil	Nil	Nil
Ramsay	2006	\$313,504	Nil	Nil	Nil	Nil	Nil	Nil
Chief Executive Officer and Former President	2005 <sup>(1)</sup>	£137,500	Nil	Nil	Nil	Nil	Nil	Nil
Brian D. Korney	2007	\$212,954	Nil	Nil	200,000	Nil	Nil	Nil
Chief Financial Officer and Secretary	2006	\$185,419	Nil	Nil	Nil	Nil	Nil	Nil
	2005 <sup>(1)</sup>	\$126,250 <sup>(2)</sup>	Nil	Nil	350,000	Nil	Nil	Nil
Charles J. Summers	2007	\$469,675	Nil	\$123,285	868,845	Nil	Nil	Nil
President and Chief Operating Officer	2006	\$467,567	Nil	\$85,374 <sup>(3)</sup>	1,043,433	Nil	Nil	Nil
	2005 <sup>(1)(4)</sup>	£183,333	Nil	US\$68,750 <sup>(5)</sup>	843,271	Nil	Nil	Nil

Notes:

- <sup>(1)</sup>During its 2005 financial year, the Corporation changed its fiscal year end from January 31 to December 31. Accordingly, information provided is for the eleven-month period ended December 31, 2005.
- <sup>(2)</sup>Mr. Ramsay was appointed as President and Chief Executive Officer of Caspian Energy Ltd. (“CEL”) effective April 19, 2004 and as President and Chief Executive Officer of the Corporation effective September 16, 2004. The table discloses all compensation paid to Mr. Ramsay during the period of his appointment as an officer of CEL December 31, 2007.
- <sup>(3)</sup>Mr. Korney was appointed as Chief Financial Officer and Secretary of the Corporation effective December 5, 2004. The table discloses all compensation paid to Mr. Korney during the period of his appointment to December 31, 2007
- <sup>(4)</sup>Mr. Summers was appointed as Chief Operating Officer of CEL effective June 14, 2004 and as Chief Operating Officer of the Corporation effective September 16, 2004. The table discloses all compensation paid to Mr. Summers during the period of his appointment as an officer of CEL to December 31, 2007.
- <sup>(5)</sup>Paid toward Mr. Summers’ housing costs and related expenses in Kazakhstan.

### Option Grants During the Year Ended December 31, 2007

The following table provides information on the stock options granted to the Named Executive Officers during the year ending December 31, 2007.

Name	Common Shares under Options <sup>(1)</sup>	% of Total Options Granted to Employees During the Period	Exercise Price (\$/share)	Market Value of Common Shares Underlying Options on the Date of Grant (\$/share) <sup>(2)</sup>	Expiration Date
William A.G. Ramsay Chief Executive Officer and Former President	1,000,000	37.5	0.89	0.89	April 4, 2012
Brian D. Korney Chief Financial Officer and Secretary	200,000	7.5	0.86	0.86	February 21, 2012
Charles J. Summers President and Chief Operating Officer	868,845	32.6	0.89	0.89	April 4, 2012

Notes:

<sup>(1)</sup>All options were granted under the Stock Option Plan.

<sup>(2)</sup>The market value indicated is the closing price of the Common Shares on the TSX on the trading day prior the date of grant of the options, which is the price upon which the exercise price of the options is based pursuant to the terms of the Stock Option Plan.

### Options Exercised and Remaining at Year-End

No options were exercised by the Named Executive Officers during the year ending December 31, 2007. The following table provides information regarding the value of unexercised options held by the Named Executive Officers, on an aggregated basis, as at the end of the period.

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Options at December 31, 2007		Value of Unexercised In-the-money Options at December 31, 2007	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
William A.G. Ramsay Chief Executive Officer and Former President	Nil	Nil	3,461,614	Nil	Nil	Nil
Charles J. Summers President and Chief Operating Officer	Nil	Nil	5,217,163	Nil	Nil	Nil
Brian D. Korney Chief Financial Officer	Nil	Nil	716,667	133,333	Nil	Nil

Notes:

<sup>(1)</sup>The value of “in-the-money” options was calculated using the closing price of the Common Shares on the TSX on December 31, 2007 of \$0.33 less the exercise price of such options. “In-the-money” options are options that can be exercised at a profit (i.e., the market value of the Common Shares is higher than the exercise price of the options).

### Termination and Other Employment Arrangements

The Corporation, or CEL, its wholly-owned subsidiary, as the case may be, has entered into an employment or consulting agreement with each of the Named Executive Officers. The material terms and conditions of the agreements as at December 31, 2007 are described below.

#### *William Ramsay—Former Agreement*

CEL entered into a consulting agreement with William Ramsay effective April 19, 2004 (the “**Former Agreement**”), pursuant to which he was retained as its Chief Executive Officer. Under the terms of the Former Agreement, Mr. Ramsay is entitled to receive an annual fee equal to £150,000.

CEL may terminate Mr. Ramsay’s consulting agreement for any reason upon 6 months’ advance written notice (or pay in lieu of notice) and at any time for just cause without notice or pay in lieu of notice.

In the event of a change of control of CEL, Mr. Ramsay may terminate the Former Agreement upon not less than 30 days’ prior written notice to CEL within 90 days of the change of control and he shall be entitled to payment of an amount equal to one year’s worth of his annual fee as a consultant under the Former Agreement.

In the event that all or substantially all of the assets of CEL are sold, transferred or otherwise disposed of in connection with one transaction for aggregate gross proceeds equal to or in excess of US \$100,000,000, Mr. Ramsay may terminate the Former Agreement upon not less than 30 days’ written notice within 90 days of such sale, transfer or disposition, and he shall be entitled to payment of US \$5,000,000.

If CEL terminates the Former Agreement without just cause or due to frustration as a result of Mr. Ramsay’s disability or illness, all unvested options held by him on the date of notice of termination shall vest and be exercisable for a period of up to 180 days subsequent to the delivery of notice of termination. If CEL terminates the Former Agreement due to frustration (other than due to Mr. Ramsay’s disability or illness) or just cause, all unvested options held by him shall immediately expire as at the date that notice of termination is delivered and all options that have vested but have not been exercised at the date that notice of termination is delivered will expire 90 days subsequent to the delivery of notice of termination if they have not been fully exercised as of that date.

*William Ramsay—New Agreement*

The Corporation entered into a consulting agreement with William Ramsay effective March 24, 2007 (the “**New Agreement**”) with a four year term (the “**Term**”), pursuant to which the Corporation (i) assumed the obligations under the Former Agreement and (ii) retained Mr. Ramsay as its Chief Executive Officer for the Term. Under the terms of the New Agreement, Mr. Ramsay is entitled to receive an annual fee equal to £150,000. Mr. Ramsay was granted 1,000,000 options to acquire Common Shares upon entering into the New Agreement. In addition, Mr. Ramsay is entitled to receive additional options immediately following an increase in the number of issued and outstanding Common Shares following such increase, such options to be exercisable at the greater of: (i) the price offered to investors that caused the increase in the share capital of the Corporation; and (ii) the lowest price permitted by any applicable regulatory authority or stock exchange. Mr. Ramsay’s right to be granted additional rights is not permitted to exceed 3.5% of the number of Common Shares issued and outstanding.

The Corporation may terminate the New Agreement for any reason upon 6 months’ advance written notice (or pay in lieu of notice) and at any time for just cause without notice or pay in lieu of notice.

In the event of a change of control of the Corporation, Mr. Ramsay may terminate the New Agreement upon not less than 60 days’ prior written notice to the Corporation within six months of the change of control and he shall be entitled to payment of an amount equal to the remaining term of the New Agreement.

If the Corporation terminates the New Agreement without just cause or due to frustration as a result of Mr. Ramsay’s disability or illness, all unvested options held by him on the date of notice of termination shall vest and be exercisable immediately for a period of up to five years subsequent to the delivery of notice of termination. If the Corporation terminates the New Agreement due to frustration (other than due to Mr. Ramsay’s disability or illness) or just cause, all unvested options held by him shall immediately expire as at the date that notice of termination is delivered and all options that have vested but have not been exercised at the date that notice of termination is delivered will expire five years subsequent to the delivery of notice of termination if they have not been fully exercised as of that date.

*Charles Summers—Former Agreement*

CEL entered into an employment agreement (the “**Former Summers Agreement**”) with Charles Summers effective June 14, 2004 (the “**Summers Effective Date**”), pursuant to which he was appointed as CEL’s Chief Operating Officer. Mr. Summers’ employment is for an initial period of three years and may be extended thereafter upon mutual agreement of the parties. Pursuant to the terms of the Former Summers Agreement, Mr. Summers is entitled to receive an annual salary of £200,000, subject to review on each anniversary of the Summers Effective Date and increase by a percentage no less than the UK Retail Price Index for that year.

The Former Summers Agreement also provides that, on each of the first two anniversaries of the Summers Effective Date during the initial term of the Former Summers Agreement, he will be granted options to purchase an additional one percent (1%) of the Common Shares issued and outstanding as at that date, exercisable for a period of five years from the date of grant, provided that the aggregate number of options held by Mr. Summers shall not confer upon him the right to acquire five percent (5%) or more of the number of issued and outstanding Common Shares.

Mr. Summers is also eligible to participate in CEL’s bonus and other compensation and benefit plans, and is eligible to receive additional discretionary annual bonuses, stock options or other equity awards.

Additionally, CEL has agreed to pay up to US\$75,000 per year toward Mr. Summers' housing costs (and related expenses) in Kazakhstan.

If CEL terminates the Former Summers Agreement for any reason (including as a result of his disability), other than for "Cause" (as defined in the Former Summers Agreement), or Mr. Summers resigns for "Good Reason" (as defined in his employment agreement), or in the event of his death, CEL is obligated to pay Mr. Summers (or his estate, as the case may be) an amount equal to the amount of his base salary for the remaining term of the Former Summers Agreement plus twelve months of his base salary in effect immediately before the termination of his employment or his resignation.

If CEL terminates the Former Summers Agreement for Cause or Mr. Summers terminates his employment other than for Good Reason, CEL is obligated to pay Mr. Summer's base salary and accrued but unused vacation entitlements, up to the date of termination of his employment.

If CEL has provided notice of termination of Mr. Summers' employment without just cause or due to frustration of the Former Summers Agreement as a result of Mr. Summers' disability or illness, all unvested options held by him shall immediately vest and become exercisable for a period of up to 180 days subsequent to the delivery of the notice of termination.

Where CEL has provided notice of termination of Mr. Summers' employment due to frustration, but not frustration due to his illness or disability, or to just cause, and whether or not advance notice of termination has been given, all unvested options held by him will expire and be forfeited as at the date that the notice of termination is delivered. Options that have vested but have not been exercised as at the date that notice of termination is delivered will expire ninety (90) days subsequent to the delivery of notice of termination if they have not been fully exercised as of that date.

#### *Charles Summers—New Summers Agreement*

The Corporation entered into an executive agreement with Charles Summers effective March 24, 2007 (the "**New Summers Agreement**") with a four year term (the "**New Summers Effective Date**"), pursuant to which the Corporation (i) assumed the obligations under the Former Summers Agreement and (ii) retained Mr. Summers as its Chief Operating Officer and a director for the New Summers Effective Date. Under the terms of the New Agreement, Mr. Summers is entitled to receive an annual fee equal to £212,591.

The New Summers Agreement also provides that, on each of the first three anniversaries of the New Summers Effective Date during the initial term of the New Summers Agreement, Mr. Summers will be granted options to purchase an additional one percent (1%) of the Common Shares issued and outstanding as at that date, exercisable for a period of five years from the date of grant, provided that the aggregate number of options held by Mr. Summers shall not confer upon him the right to acquire five percent (5%) or more of the number of issued and outstanding Common Shares.

Mr. Summers is also eligible to participate in the Corporation's bonus and other compensation and benefit plans, and is eligible to receive additional discretionary annual bonuses, stock options or other equity awards. Additionally, the Corporation has agreed to pay Mr. Summers the reasonable housing costs (and related expenses) in Kazakhstan.

In the event of a change of control of the Corporation, Mr. Summers may terminate the New Summers Agreement upon not less than 60 days' prior written notice to the Corporation within six months of the change of control and he shall be entitled to payment of an amount equal to the remaining term of the New Summers Agreement.

If the Corporation terminates Mr. Summers' consulting agreement without just cause or due to frustration as a result of Mr. Summers' disability or illness, all unvested options held by him on the date of notice of termination shall vest and be exercisable immediately for a period of up to five years subsequent to the delivery of notice of termination. If the Corporation terminates the New Summers Agreement due to frustration (other than due to Mr. Summers' disability or illness) or just cause, all unvested options held by him shall immediately expire as at the date that notice of termination is delivered and all options that have vested but have not been exercised at the date that notice of termination is delivered will expire five years subsequent to the delivery of notice of termination if they have not been fully exercised as of that date.

*Brian Korney*

The Corporation entered into an employment agreement with Brian Korney dated June 1, 2005, and updated June 1, 2006, pursuant to which Mr. Korney was retained as the Corporation's Chief Financial Officer and Secretary, effective December 5, 2004. Pursuant to the terms of his employment agreement, Mr. Korney is entitled to receive a salary of \$16,667 per month and bonus and stock options determined at the discretion of the Corporation and its board of directors. Mr. Korney's performance is reviewed annually and his salary adjusted accordingly. During 2007, his monthly stipend was increased to \$18,517.

Mr. Korney's employment agreement may be terminated by the Corporation upon 24 months' written notice or payment of salary in lieu thereof, provided that the Corporation may terminate the agreement without notice or pay in lieu thereof if Mr. Korney violates the agreement or for cause.

#### **CORPORATE GOVERNANCE DISCLOSURE**

The Canadian securities regulatory authorities have issued corporate governance guidelines for all reporting issuers in Canada (other than investment funds), together with certain related disclosure requirements. The guidelines are recommended as "best practices" for issuers to follow. The Corporation recognizes that good corporate governance plays an important role in its overall success and in enhancing shareholder value and, accordingly, has adopted certain corporate governance practices which are reflective of the recommended guidelines. National Instrument 58-101 – *Disclosure of Corporate Governance Practices* of the Canadian securities regulatory authorities requires each reporting issuer (with certain exceptions) to provide annual disclosure of its corporate governance practices. A summary of certain aspects of the Corporation's approach to corporate governance is provided below.

## **Board of Directors**

### *Independence*

Multilateral Instrument 52-110 – *Audit Committees* of certain of the Canadian securities regulatory authorities (“**MI 52-110**”) sets out the standard for determining whether a director is “independent” for the purposes of the corporate governance guidelines and disclosure requirements of the Canadian securities regulatory authorities. In accordance with MI 52-110, a director is “independent” if he or she has no direct or indirect material relationship with the Corporation. A “material relationship” is a relationship which could, in the view of the Corporation’s board of directors, be reasonably expected to interfere with the exercise of the director’s independent judgement. MI 52-110 also sets out certain circumstances where a director will automatically be considered to have a material relationship with the Corporation.

Based upon the standard articulated in MI 52-110, the Board has determined that a majority of the Corporation’s directors are independent. Robert Cudney, Adil Mukhamedzhanov, Gordon Harris, Robert Pollock and John McBride are the independent members of the Corporation’s board of directors. William Ramsay and Charles Summers are not independent by virtue of the fact that they are executive officers of the Corporation.

In accordance with the mandate of the board of directors, the Corporation’s independent directors may meet regularly, or from time to time as the circumstances warrant, without the presence of members of management or the non-independent directors of the Corporation. Since the beginning of the Corporation’s most recently completed financial year, the Corporation’s independent directors did not hold any such meetings.

The Corporation’s board of directors does not have a policy with respect to the separation of the offices of chairman and chief executive officer. The board of directors does not believe that having the same person perform the dual-role necessarily impairs the board’s ability to function independently of management. The board of directors believes that this issue is part of the succession planning process and that it is in the best interests of the Corporation for the board of directors to make a determination when it elects a new chief executive officer. The current chairman of the board, William Ramsay, is the Chief Executive Officer of the Corporation and, accordingly, is not an independent director. The board of directors is of the view that the depth and experience of its independent directors and their majority position on the board, coupled with the Corporation’s other corporate governance practices, including the responsibilities delegated to its Corporate Governance Committee (which is comprised entirely of non-executive directors), enables the board to conduct its activities sufficiently independently of management.

### *Attendance*

Since the beginning of the Corporation’s most recently completed financial year to the completion of that year, there have been three meetings of the board of directors. All of the directors (who were members of the board at the time) attended all of these meetings, except as follows:

1. Robert Cudney attended two of three meetings of the board of directors; and
2. Adil Mukhamedzhanov attended two of three meetings of the board of directors.

## *Directorships*

The following directors of the Corporation are also directors of the following reporting issuers (or reporting issuer equivalents):

<b>Director</b>	<b>Reporting Issuer</b>
William Ramsay	Bowram Energy Inc.
Robert Cudney	Aspen Resources Corp, Guyana Goldfields Inc., Mill City Gold Corp., Northfield Capital Corporation, PetroFalcon Inc., Proprietary Industries Inc. and Gold Eagle Mines Ltd.
Gordon Harris	Pearl Exploration and Production Ltd., Blue Parrot Energy Inc., Pan Global Energy Ltd., Buffalo Resources Corp., Primera Energy Resources, and Torque Energy Inc.
John McBride	Tengtu International Corp., Echelon Capital Corp., Hosted Data Transaction Solutions Inc., Anaconda Mining Inc., COSTA Energy Inc., Normabec Mining Resources Ltd., and Northfield Capital Corporation.
Robert Pollock	International Nickel Ventures Corporation, 1322256 Alberta Ltd., MTC Growth Fund I Inc., and Western GeoPower Corp.

## **Board Mandate**

The Corporation's board of directors is responsible for the stewardship of the Corporation and for supervising the management of its business and affairs. The board of directors reviews, discusses and approves various matters relating to the Corporation's strategic direction, business and operations and its organizational structure, with a view to the Corporation's best interests.

While management is responsible for the day to day conduct of the Corporation's business, in carrying out its supervisory responsibilities, the board (or the committees of the board, as the case may be) has numerous responsibilities, including: (a) adopting a strategic planning process and approving a strategic plan; (b) identifying the Corporation's principal business risks and ensuring the implementation of appropriate systems to manage these risks; (c) ensuring appropriate succession planning in place, including appointing, training and monitoring senior management; (d) developing a communications policy for the Corporation; (e) developing policies and procedures to ensure the integrity of the Corporation's internal control and management information systems; (f) ensuring appropriate standards of corporate conduct, including adopting a code of business conduct and ethics, and monitoring compliance with and waivers from the code; (g) ensuring implementation of appropriate environmental stewardship and health and safety management systems; (h) reviewing and approving compensation of senior management; (i) adopting corporate governance guidelines or principles applicable to the Corporation; (j) reviewing annually the contribution of the board as a whole, the committees of the board and each of the directors; and (k) adopting a process for shareholders and other interested parties to communicate directly with the board of directors or its independent directors.

## **Position Descriptions**

As set forth in the corporate governance guidelines adopted by the Corporation's board of directors, the chairman of the board is responsible for ensuring that the board functions in a manner that is independent from management. The chairman's responsibilities include managing meeting schedules, setting agendas, chairing meetings of the board, acting as a liaison between senior management and the board and providing advice to senior management on various matters.

The chair of each committee of the board of directors is responsible for determining the frequency of committee meetings (subject to any requirements set forth in the committee's charter), developing the committee's annual schedule and agendas and reporting to the board of directors on the significant matters considered at the committee's meetings.

The board of directors has not developed a written position description for the Corporation's chief executive officer (the "CEO"). In light of the current stage of the Corporation's operations, the board of directors is of the view that it is not necessary to formalize in writing the role and responsibilities of the CEO. The CEO is accountable to the board of directors for the effective overall management of the Corporation. The CEO is responsible for, among other things: fostering a corporate culture that promotes ethical practices; developing the Corporation's strategic plan; developing and maintaining an effective organizational structure; acting as the principal spokesperson for the Corporation; advising the board of directors on operational and financial matters and keeping it apprised of significant events, developments and opportunities that affect its business.

## **Orientation and Continuing Education**

The Corporation's board of directors has established a corporate governance committee (the "**Corporate Governance Committee**"). As part of its governance responsibilities, the Corporate Governance Committee makes continuing education opportunities available to all directors to enable them to maintain or enhance their skills and abilities and ensure that their knowledge and understanding of the Corporation's business remains current. The committee has not yet identified specific programs, conferences or other continuing education opportunities for directors to participate in but directors are encouraged to put forward suggestions or requests regarding the same.

The board of directors has adopted corporate governance guidelines which were developed by the Corporate Governance Committee. The guidelines provide that all new directors of the Corporation must participate in an orientation program, which should be conducted within two months of the annual meeting at which new directors are elected. As part of the orientation program, new directors are briefed by senior management, other appropriate personnel and outside advisors about the Corporation's strategic plans, significant financial, accounting and risk management issues, compliance programs, Code of Business Conduct and Ethics, principal officers and internal and external auditors. Existing directors are also invited to attend the orientation program. Upon joining the board, each new director is provided with such information as is necessary to ensure that he or she is familiar with the Corporation's business and the procedures of the board. New members receive copies of board material and other material regarding the Corporation's business and operations (including the mandate of the board, committee charters, recent annual reports, proxy solicitation materials and other operating and budget reports) and are provided with opportunities to meet with management and other directors.

## **Ethical Business Conduct**

The Corporation has implemented a Code of Business Conduct and Ethics (the "**Code**") to be followed by its employees, officers and directors and those of its subsidiaries. The purpose of the Code is to, among

other things, promote honest and ethical conduct, avoidance of conflicts of interest and compliance with applicable governmental laws, rules and regulations. A copy of the Code is available at [www.sedar.com](http://www.sedar.com) and a summary of certain of its provisions is provided below.

The Corporation is committed to sound environmental management. The Code confirms the Corporation's intention to conduct itself in partnership with the environment and community at large as a responsible and caring business entity, and the Corporation's commitment to managing all phases of its business in a manner that minimizes any adverse effects of its operations on the environment.

The Code provides that the Corporation's employees, officers and directors are required to act with honesty and integrity and to avoid any relationship or activity that might create, or appear to create, a conflict between their personal interests and the interests of the Corporation. Such individuals (and their immediate family members) are prohibited from using their positions with the Corporation to solicit gifts or other benefits from the Corporation's customers, suppliers and contractors, and the Code contains guidelines to be followed when accepting gifts or entertainment from these parties.

The Corporation is committed to providing a healthy and safe workplace in compliance with applicable laws, rules and regulations. The Code affirms the Corporation's commitment to foster a work environment in which all individuals are treated with respect and dignity. The Corporation is an equal opportunity employer and does not discriminate against employees, officers, directors or potential employees, officers or directors on the basis of race, color, religion, sex, national origin, age, sexual orientation or disability or any other category protected by Canadian federal or provincial laws and regulations, or any laws or regulations applicable in the jurisdiction where such employees, officers or directors are located.

All of the Corporation's employees, officers and directors are expected to comply with the Code and any waiver from any part of the Code requires the approval of the Corporation's President, in the case of an employee, or of its board of directors, in the case of an officer or director, and if required under applicable securities legislation, public disclosure of the waiver in the case of an officer or director.

The Code also provides a process by which actual or potential violations of its provisions are to be reported (on a confidential basis) to the chairman of the Audit Committee and confirms that there will not be any reprisals against an individual who does so in good faith.

### **Nomination of Directors**

The Nominating and Compensation Committee of the board of directors is responsible for assisting the board in respect of the nomination of directors and is required to identify new candidates for appointment to the board. The current members of the committee are Robert Cudney, John McBride and Robert Pollock.

A seven-member board is considered appropriate to facilitate effective decision-making in light of the Corporation's current operations and the depth and experience of the directors. As part of its mandate going forward, however, the Nominating and Compensation Committee is required to analyze the Corporation's needs when a vacancy does arise and identify individuals who can meet such needs and who, by virtue of their skills, areas of expertise, industry knowledge, geographic location and geographic and industry contacts, are best able to contribute to the direction of the Corporation's business and affairs. The identification of candidates will also be made in the context of the existing competencies and skills which the board, as a whole, does possess and, to the extent different, should possess. If desirable, the committee may also retain search firms to assist it in identifying candidates. Once suitable candidates are identified, they are presented for consideration to the board of directors.

## **Compensation**

The Nominating and Compensation Committee is also responsible for assisting the board of directors in respect of director and officer compensation matters. The committee is composed entirely of independent directors. In accordance with its charter, the Nominating and Compensation Committee establishes and reviews the Corporation's overall compensation philosophy and, at least annually, its general compensation policies with respect to the chief executive officer (and other officers), including the corporate goals and objectives and the annual performance objectives relevant to him. The committee evaluates the chief executive officer's performance in light these goals and objectives and, based on its evaluation, determines and approves the annual salary, bonus, options and other benefits of the chief executive officer. In determining his compensation, the committee may consider a number of factors, including the Corporation's performance, the value of similar incentive awards to chief executive officers at comparable companies, the awards given to the chief executive officer in past years and other factors it considers relevant. A summary of the compensation received by the chief executive officer for the year ended December 31, 2007 is provided in this management proxy circular under the heading "Executive Compensation – Summary Compensation Table".

The Nominating and Compensation Committee also reviews the adequacy and form of compensation of the Corporation's directors, with a view to ensuring it realistically reflects the responsibilities and risks involved in being a director of the Corporation. The committee recommends to the board of directors for approval the remuneration of directors and the amount to which each director will be entitled by way of attendance fees for board and committee meetings. A summary of the compensation received by the directors for the year ended December 31, 2007 is provided in this management proxy circular under the heading "Executive Compensation – Compensation of Directors".

## **Committees**

In addition to the Corporation's Audit Committee, Nominating and Compensation Committee and Corporate Governance Committee, which are described above and elsewhere in this Circular, the board of directors has established the Reserves Committee to assist with technical matters relating to the operations of the Corporation. Charles Summers and Gordon Harris are the current members of the Reserves Committee.

The responsibilities of the Corporate Governance Committee include: (i) facilitating the independent functioning of the board of directors and maintaining an effective relationship between the board and management; (ii) developing corporate governance guidelines for the Corporation; (iii) reviewing the performance and qualifications of the directors in connection with their re-election; (iv) monitoring compliance with the Code and the Corporation's Disclosure Policy and Share Dealing Code; (v) annually reviewing the board of directors and its committees; and (vi) considering and making available continuing education opportunities for directors. In carrying out its duties, the Corporate Governance Committee has the discretion to engage and compensate outside advisors which it determines are necessary.

The purpose of the Reserves Committee of the board of directors the Corporation is to assist the board with its duties and responsibilities in evaluating and reporting the Corporation's oil and gas reserves. The Reserves Committee shall: perform an annual review and evaluation of the Corporation's consolidated petroleum and natural gas reserves; verify the integrity of the Corporation's reserves evaluation and reporting system; investigate and verify the qualifications and independence of the Corporation's independent engineering consultants; evaluate, prepare and disclose the Corporation's compliance with legal and regulatory requirements related to its oil and gas reserves; monitor the performance of the Corporation's independent engineering consultants; and monitor and evaluate the business practices and

ethical standards of the Corporation in relation to the preparation and disclosure of its oil and gas reserves.

### **Assessments**

In accordance with the Corporation's corporate governance guidelines, the Corporation's board of directors conducts an annual self-evaluation to determine whether it and its committees are functioning effectively. The Corporate Governance Committee leads the review, receives comments from all directors and reports annually to the board following the end of each fiscal year with an assessment of the board's performance from the perspective of individual directors and the board as a whole. The assessment focuses on the board's contribution to the Corporation and specifically focuses on areas in which the board or management believes that the board could improve.

Each of the Audit Committee, the Corporate Governance Committee, the Nominating and Compensation Committee and the Reserves Committee reviews and evaluates, at least annually, its performance and the performance of its members, including reviewing compliance with its charter.

## **REPORT ON EXECUTIVE COMPENSATION**

### **Composition of the Committee**

The role of the Corporation's Nominating and Compensation Committee is to, among other things, assist the Corporation's board of directors with respect to the compensation of the Corporation's officers and directors. In accordance with its charter, the Nominating and Compensation Committee is responsible for establishing and reviewing the overall compensation philosophy of the Corporation, establishing and reviewing the Corporation's general compensation policies applicable to the chief executive officer and other officers, evaluating the performance of the chief executive officer and other officers and approving their annual compensation, reviewing and recommending the compensation of directors, reviewing and recommending employment, consulting, retirement and severance arrangements involving officers, directors and key employees of the Corporation and reviewing and recommending proposed and existing incentive-compensation plans and equity-based compensation plans for the Corporation's directors, officers, employees and consultants.

The members of the Nominating and Compensation Committee are Robert Cudney, John McBride and Robert Pollock, none of whom is or has been an officer or employee of the Corporation or of any subsidiary of the Corporation.

### **Compensation Policies**

Decisions regarding executive remuneration are designed to compensate the Corporation's officers through salary and other benefits in a manner that is competitive within the industry at corporations of comparable size and stages of development, taking into consideration the geographic location of the Corporation's business. Executive compensation is structured to give effect to the following principal objectives: (1) to align the interests of officers with those of the Corporation's shareholders; (2) to compensate officers at a level and in a manner that allows the Corporation to attract, motivate and retain individuals who possess the expertise desirable for the Corporation to achieve its business objectives; and (3) to link an individual's compensation to the performance of both the Corporation and the individual.

For the year ending December 31, 2007, the compensation of the Corporation's executive officers was comprised of two principal components – salary and stock options. As an early-stage oil exploration Corporation, it is likely that the Corporation's executive compensation policy will evolve, together with

its business, to permit the Corporation to continue to attract and retain highly skilled officers and to motivate them in a manner that is aligned with the Corporation's performance.

### **Long-Term Incentives**

The Corporation grants stock options to its executive officers as a form of long-term compensation to align the interests of the officers with those of the Corporation's shareholders and provide them with incentives which are tied to the performance of the Corporation. Options to purchase Common Shares are granted pursuant to the Stock Option Plan which was approved by shareholders at the Corporation's annual and special meeting held in 2004, and subsequently amended and approved by shareholders at the Corporation's annual and special meeting held in 2007.

The criteria for granting options to an officer includes his or her performance and level of responsibility, previous option grants and level of salary and other compensation relative to the individual's peer group at similarly situated companies.

Options granted to the Corporation's executive officers are typically subject to vesting requirements, based upon the passage of time rather than performance in order to reflect the stage of the Corporation's business and development and encourage continuity of management throughout the implementation of the Corporation's business plan.

### **Compensation of Chief Executive Officer**

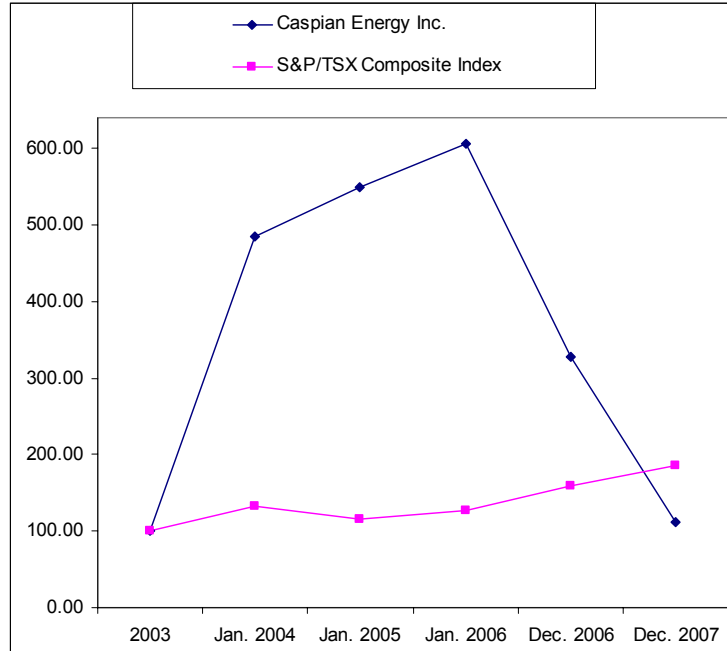
The compensation of William Ramsay, the Corporation's Chief Executive Officer, was determined by CEL prior to completion of its merger with the Corporation. Under the terms of his consulting agreement with CEL (which was recently assumed by the Corporation—see "Termination and Other Employment Arrangements – William Ramsay – New Agreement"), a summary of which is provided under "Termination and Other Employment Arrangements – William Ramsay – Former Agreement", Mr. Ramsay's compensation for the financial year ended December 31, 2007 was comprised of an annual consulting fee and stock options, determined in light of the Corporation's position as an emerging oil exploration Corporation with operations primarily in Kazakhstan. Mr. Ramsay's compensation for the financial year ended December 31, 2007 is disclosed above under "Executive Compensation – Summary Compensation Table".

The foregoing report is submitted by the Nominating and Compensation Committee of the Corporation's board of directors:

Robert D. Cudney  
John D. McBride  
Robert Pollock

### **Performance Graph**

The following graph illustrates the Corporation's cumulative shareholder return (assuming the re-investment of dividends of which there have been none) based upon a \$100 investment in Common Shares from January 31, 2002 to December 31, 2007, compared to the cumulative total shareholder return from a similar investment in the S&P/TSX Composite Index over the same period.



	2003	Jan. 2004	Jan. 2005	Jan. 2006	Dec. 2006	Dec. 2007
Caspian Energy Inc.	100.00	484.85	548.48	606.06	327.27	112.12
S&P/TSX Composite Index	100.00	132.20	115.63	127.08	158.37	185.71

### Compensation of Directors

For the financial year ended December 31, 2007, independent directors were paid \$10,000 for each committee on which they served and \$5,000 for acting as chair of any such committees. In addition, the directors are entitled to participate in the Stock Option Plan. See “Securities Authorized Under Equity Compensation Plans – Stock Option Plan”.

### DIRECTORS’ AND OFFICERS’ INSURANCE AND INDEMNIFICATION

The Corporation maintains liability insurance for its directors and officers. The annual premium for the insurance is \$85,000, no portion of which is payable directly by the individual directors and officers. The aggregate insurance coverage under the policy is limited to \$5,000,000, with a \$50,000 deductible. No claims have been made or paid to date under the policy.

### INDEBTEDNESS OF OFFICERS AND DIRECTORS

There is currently no outstanding indebtedness owing to the Corporation or any subsidiary of the Corporation by (i) any director, executive officer, employee; (ii) any former director, executive officer or employee; (iii) any proposed nominee for election as a director; or (iv) any associate of any current or former director, executive officer or proposed nominee for election as a director.

### INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

No director, executive officer, shareholder beneficially owning (directly or indirectly) or exercising control or direction over more than 10% of the Common Shares, or proposed nominee for election as a director of the Corporation, and no associate or affiliate of the foregoing persons, has or has had any

material interest, direct or indirect, in any transaction since the beginning of the Corporation's most recently completed financial year or in any proposed transaction which, in either such case, has materially affected or will materially affect the Corporation or any subsidiary of the Corporation.

### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides a summary of securities issued and issuable under all equity compensation plans of the Corporation as at December 31, 2007. As at the date of this Circular, the Stock Option Plan is the only equity compensation plan of the Corporation.

#### Equity Compensation Plan Information

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans<sup>(1)</sup></b>
Equity compensation plans approved by securityholders	13,328,777	\$1.48	2,322,712
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
<b>Total</b>	<b>13,328,777</b>	<b>\$1.48</b>	<b>2,322,712</b>

Notes:

<sup>(1)</sup> The maximum number of Common Shares issuable under the Stock Option Plan is based upon a fixed percentage (15%) of the number of Common Shares outstanding from time to time. The number of securities remaining available for future issuances indicated in the table is calculated based upon 104,343,263 Common Shares outstanding as at December 31, 2007.

## **Stock Option Plan**

Directors, officers and employees of, and consultants to, the Corporation and its subsidiaries are eligible to participate in the Stock Option Plan. On June 27, 2005, the Stock Option Plan was amended (with the approval of the Corporation's shareholders) to change the maximum number of Common Shares issuable under the Stock Option Plan from a fixed number to a fixed percentage of the outstanding Common Shares. Accordingly, the number of Common Shares issuable pursuant to options granted under the Stock Option Plan may not exceed 15% of the number of Common Shares outstanding from time to time. The Stock Option Plan was further amended at the 2007 Annual and Special Meeting of the Corporation to give effect to certain legislative requirements, including changes to the amendment formula of the Stock Option Plan in order to comply with TSX Rule 613(d), and changes to expiry provisions to allow for certain extensions of option exercise periods in the event that an option would otherwise expire during a "Blackout Period" (as such term is defined in the Stock Option Plan).

As at December 31, 2007, 12,895,444 Common Shares were issuable pursuant to outstanding options, representing approximately 12.4% of the Common Shares outstanding as at that date. As at December 31, 2007, an additional 2,756,035 Common Shares remained issuable under future option grants under the Stock Option Plan (based upon 104,343,263 Common Shares outstanding as at that date) representing 2.6% of the outstanding Common Shares as at that date. As at the date hereof, 12,962,110 Common Shares are issuable pursuant to outstanding options (based upon 104,343,263 Common Shares outstanding) representing approximately 12.4% of the outstanding Common Shares. As at the date hereof, an additional 2,689,379 Common Shares remain issuable under future option grants under the Stock Option Plan (based upon 104,343,263 Common Shares outstanding) representing 2.6% of the outstanding Common Shares. Since the Stock Option Plan was implemented by the Corporation in 2004, 790,000 options granted under the Stock Option Plan have been exercised.

The Stock Option Plan provides that no participant may hold options exercisable for more than 5% of the Common Shares outstanding on the date of grant (representing approximately 5,217,163 Common Shares as at December 31, 2007). The maximum number of Common Shares that may be issued to any one insider (together with his or her associates) within a one-year period pursuant to the exercise of options or under any other share compensation arrangement may not exceed 5% of the number of Common Shares outstanding on the date of grant. The number of Common Shares that may be reserved for issuance to insiders pursuant to the exercise of options granted under the Stock Option Plan or otherwise may not exceed 10% of the Common Shares outstanding on the date of grant. The maximum number of Common Shares which may be issued to insiders under the Stock Option Plan or otherwise within any one year period shall be 10% of the outstanding Common Shares.

The exercise price of an option granted under the Stock Option Plan is based upon the closing price of the Common Shares on the TSX on the trading day immediately prior to the date of the option grant or, if the Common Shares do not trade on such date, then the exercise price is based upon the average of the daily high and low board lot trading prices of the Common Shares on the TSX for the five trading days immediately preceding the date the option is granted. The Corporation proposes to amend the Stock Option Plan to clarify that the purchase price for options granted under the Stock Option Plan shall at no time be less than the market price (as defined in the Stock Option Plan). See "Proposed Amendments to the Stock Option Plan" above.

The board of directors (or, if applicable, the committee appointed by the board of directors to administer the Option Plan) has the discretion to determine the term and vesting provisions (if any) of options granted under the Option Plan, provided that the term of an option may not exceed 5 years. If an optionee's employment or service with the Corporation is terminated for any reason (whether or not for cause), other than death, all options which have vested as at the date of resignation or notice of

termination of employment or service, as the case may be, may be exercised until the earlier of the expiry date of the options and 180 days from the date of resignation or notice of termination of employment or service, as the case may be. If an optionee's employment or service with the Corporation is terminated as a result of the optionee's death, all options which have vested as at the date of death may be exercised until the earlier of the expiry date of the options and one year from the date of death. The board of directors (or the committee appointed by the board of directors to administer the Stock Option Plan) has the discretion to determine an alternative expiry date in the event of the termination of an optionee's employment or service or the optionee's death, subject to any requisite approval of a stock exchange on which the Common Shares trade. All unvested options held by an optionee on the date of resignation, notice of termination or death, as the case may be, will terminate effective such date.

Currently, the board of directors (or the committee, if any, appointed by the board of directors to administer the Stock Option Plan) may amend the terms of the Stock Option Plan, subject to the receipt of any applicable regulatory and shareholder approvals. Currently, the TSX will not require that shareholder approval be obtained for certain types of amendments, including: (a) amendments of a "housekeeping nature"; (b) a change to the vesting provisions of an option or of the Stock Option Plan; (c) a change to the termination provisions of an option or of the Stock Option Plan which does not entail an extension beyond the original expiry date; and (d) the addition of a cashless exercise feature, payable in cash or securities, which provides for a full deduction of the number of underlying securities from the Stock Option Plan reserve. Any reduction in price of an outstanding Option granted to an insider of the Corporation, any amendment to the maximum number of shares issuable under the Stock Option Plan, or any amendment to extend the term of an outstanding Option granted under the Stock Option Plan shall be subject to the approval of the shareholders of the Corporation.

Options granted under the Stock Option Plan may not be assigned or transferred, other than by will or in accordance with laws of succession.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Corporation's consolidated financial statements and management's discussion and analysis for the year ending December 31, 2007. The section entitled "Audit Committee Information" contained in the Corporation's annual information form, together with Schedule D thereto, contain certain information pertaining to the Corporation's Audit Committee.

The Corporation will provide to any person, upon request to the Secretary of the Corporation, a copy of:

- (a) the Corporation's current annual information form, together with any document, or the pertinent pages of any document, incorporated by reference into it;
- (b) the Corporation's consolidated financial statements for the year ended December 31, 2007, together with the accompanying auditor's report, or any of its interim financial statements which have been filed in respect of a subsequent period;
- (c) the Corporation's management's discussion and analysis relating to its audited financial statements for the year ended December 31, 2007 or any interim financial statements which have been filed in respect of a subsequent period; and
- (d) this Circular;

provided that the Corporation may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Corporation. Written requests for a copy of the foregoing documents should be directed to the Secretary of the Corporation at Caspian Energy Inc., 396 – 11<sup>th</sup> Avenue S.W. Suite 410, Calgary, Alberta T2R 0C5.

#### **APPROVAL**

The contents of this management information circular and the sending thereof have been approved by the Corporation's board of directors.

Dated the 21st day of May, 2008.

(Signed) WILLIAM A.G. RAMSAY  
President and Chief Executive Officer