

13 August 2008

**CASPIAN ENERGY INC.
ANNOUNCES SECOND QUARTER 2008 FINANCIAL RESULTS**

TORONTO, August 13, 2008 - Caspian Energy Inc. (the "Company" or "CEK") (TSX and AIM: CEK) announced today its financial results for the three and six months ending June 30, 2008.

Financial highlights

- Oil revenues before transportation costs for the three months ending June 30, 2008 were \$3,363,412 (Q2 2007 - \$1,889,400).
- For the three months ending June 30, 2008, Caspian's net loss and comprehensive loss was \$1,219,004 (Q2 2007- \$6,059,772)
- The Company's operations provided cash of \$349,338 for the three months ended June 30, 2008 (Q2 2007 – (\$849,893)).
- Working capital position of \$7.2 million at the close of the quarter.

The Company's interim unaudited financial statements for the period and related management's discussion and analysis have been filed with Canadian securities regulatory authorities and are available for viewing at www.sedar.com.

Operational highlights

- Increase in average price per barrel from \$33.81 in the same period last year to \$112.27 due to the impact of international oil markets. The Company sold an average 328 Bopd during the three month period (Q2 2007 – 465 Bopd).
- Whilst Aransay #711, the second well in the Company's post-salt drilling programme was determined to be a dry hole, the presence of reservoir-quality sands of such thickness in the Triassic confirmed that the area is a viable primary target in the presence of a proper trap and seal.
- A contract has been signed and work is underway to complete the Technology Scheme for the development of the East Zhagabulak Field. The field continues to produce at about 784 Bopd, of which Caspian's share is 392 bopd.

Outlook

- The Company has completed its East Zhagabulak Reserves Report for the Kazakhstan Government and is proceeding with its application for a production license.
- The drilling rig has now been released from Aransay #711 and Caspian intends to further evaluate the portfolio of existing prospects identified in the North Block before making further drilling decisions.

Rights Offering

- On April 17, 2008, the Company announced a Rights Offering, which closed on May 28, 2008. The Rights Offering was significantly oversubscribed and raised gross proceeds of \$4,347,635, through subscriptions for 17,390,543 units at a price of \$0.25 per unit.

- Each unit comprised of one common share in the capital of Caspian (a "Share"), and one half of one Share purchase warrant (each whole such Share purchase warrant a "Warrant") at an exercise price of \$0.45 exercisable until the earlier of May 23, 2011, or 30 days following the receipt of a notice from Caspian that the closing price of the Shares for any 20 consecutive trading days exceeded \$0.75

Commenting on the results, William Ramsay, Chairman and Chief Executive Officer of Caspian Energy, Inc. said:

“Despite a couple of operational set backs this quarter, the continual production of the East Zhagabulak Field during times of strong oil prices and the impressive reception to our Rights Offering, has allowed us to end the quarter with a robust working capital position and mitigated our losses.

We have confirmed that the Triassic area is a viable primary target and remain confident on the new strategy that we are pursuing which we believe presents a more attractive risk profile for the Company.”

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CAUTIONARY NOTE

Some of the statements and information contained in this news release may include certain estimates, assumptions and other forward-looking information. The actual performance, developments and/or results of the Company may differ materially from any or all of the forward-looking statements, which include current expectations, estimates and projections, in all or in part attributable to general economic conditions, and other risks, uncertainties and circumstances partly or totally outside the control of the Company, including oil prices, imprecision of reserve estimates, drilling risks, future production of gas and oil, rates of inflation, changes in future costs and expenses related to the activities involving the exploration, development, production and transportation of oil, hedging, financing availability and other risks related to financial activities, and environmental and geopolitical risks. Further information which may cause results to differ materially from those projected in the forward-looking statements is contained in the Company's filings with Canadian securities regulatory authorities. The Company disclaims any intention or obligation to update or revise forward-looking information, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.

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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.

Prior to the end of the fourth quarter 2005, EZ#301 was drilled to a total depth of 4,846 metres and logged. The well was completed with the drilling rig before the rig was moved to the EZ#302 location. EZ#301 was matrix acidized and the two potentially productive hydrocarbon bearing zones were flow-tested. The lower zone (KT-2) was tested at 2,532 Bopd. The upper zone (KT-1) had difficulty maintaining an independent flow, so it was commingled with the lower zone and the well was tied-in to the Zhagabulak production facility. Subsequently, production logs were ran and it was determined that the KT-1 was producing 100 Bopd. Well 301 was undergoing a government mandated pressure survey in November 2006, when a production logging tool and cable were lost in the hole. During the second quarter, the tool and wire were recovered and the well has resumed production. Well 301 is currently producing 582 BOPD, 15 BWPD, 821 MCFD with a FTP (flowing tubing pressure) of 348 psig and a shut in casing pressure of 1,881 psig on a 12 mm choke.

The second exploration effort, EZ#302, was spud on December 25, 2005. Acidizing and testing of the well were performed following removal of the drilling rig. The well showed indications of hydrocarbons while drilling and logging; however, the stimulation efforts failed to cause the well to flow naturally. In well 302 a workover has been prepared to isolate the KT-II and the lower portions of the KT-I that exhibit higher water saturations on the logs.

The third location, EZ#303 is about 5.2 km southwest of EZ#302. EZ#303 spud on May 28, 2006. The well was permitted to a depth of 5,700 metres. EZ#303 reached a total depth of 4,630 metres in a sidetrack wellbore after the initial wellbore reached a depth of 5,430 metres, but was lost due to a drill string parting, while pulling out of the hole for logging. A total of 70 meters were perforated and acidized in both the KT-1 and KT-2 intervals. A combined test of both intervals yielded water with small amounts of oil, while the separate test on the KT-1 yielded water. In well 303 a workover is being written to isolate intervals and test separately to identify which perforations are producing water.

The original producing well, EZ#213, drilled and completed during the Soviet period, was re-entered in November 2006 and perforations were added in the KT-1 reservoir. Due to different casing weights, problems were encountered with packer setting for the acid operation and consequently, only one-half of the productive zones were acidized. Despite the limits on the acidization, a significant improvement of daily production over the pre-workover rates was achieved. Well 213 is currently producing 263 BOPD, 63 BWPD, 369 MCFD with a flowing tubing pressure of 325 psig and a shut-in casing pressure of 1,663 psig on an 8.7mm choke. The choke size was increased from the previous 7.0 mm choke after the flow line pressure was reduced by a successful hot oil treatment. Artificial lift equipment is currently being designed and quoted and a procedure will be prepared once the design is finalized.

The Company has initiated the development process for East Zhagabulak. Caspian has made initial contacts with Kazakhstan design institutes for the preparation of the development program report for the development of the East Zhagabulak field. The preparation of the official State Reserves Report for East Zhagabulak is complete and is expected to be submitted to the government for approval and issuance of a development contract in late summer, 2008. The preparation of the Technology Scheme, which outlines the detailed plan of development of the field, is also underway and is expected to be completed by the end of November, 2008.

Ongoing petrophysical analyses of all wells penetrating the below salt reservoirs is being completed 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 is also be evaluated for inclusion into this process.

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 was processed through PSDM (Pre-Stack Depth Migration) and interpretation of this data has been completed. PSTM (Pre-Stack Time Migration) analysis, for the above salt section has also been conducted. The acquisition of the 367 kilometre regional 2-D seismic survey covering the west and north areas of the North Block and tying into the Zhagabulak and Baktygaryn 3-D seismic surveys that was completed in March 2007 has also been processed and interpreted. The Baktygaryn 3-D program and the regional 2-D program were fully interpreted at the end of October 2006. The interpreted data from all new seismic data acquired and from the earlier reprocessed Soviet-era 2-D seismic is being combined to create a geological model and identify additional leads and prospects across the North Block territory.

The Baktygaryn Area presents drilling targets in both the below salt Lower Permian and Carboniferous sections and the above salt Upper Permian and Mesozoic sections with depths ranging from approximately 400 to 2,500 metres and provides a second tier of exploration to the Company's drilling portfolio. These targets are recognized in the forms of channel sands, traps against the Kungurian salt ridges and underneath salt overhangs.

In addition to the ongoing interpretation work on the Baktygaryn 3-D and North Block regional 2-D seismic data and the identification of several post-salt drilling targets in the Triassic and Permian formations, further progress on the interpretation has revealed the presence of additional targets which are being added to the Company's prospect and lead portfolio. Completion of the interpretation work is expected by late May 2008.

The first post-salt well identified from the Baktygaryn 3-D survey, Baktygaryn #703, was spud on March 17, 2008, reached total depth of 2,521 metres on June 15, 2008 and was rig-released on June 19, 2008. Numerous drilling delays were experienced due to deviation problems in the salt and anhydrite section and mechanical failures of the drill string. The object of the vertical well was to secondarily, test Triassic sandstones downdip on a faulted structure and primarily, Upper Permian sandstones in a trap below a Permian salt diapir overhang. The well encountered excellent reservoir quality sandstones in the Triassic, but due to the downdip location of the well, no hydrocarbons were found. Seismic anomalies that supported the presence of a hydrocarbon trap in the Upper Permian, below a salt overhang, were proven by drilling to be inter-bedded claystones and anhydrite. No reservoirs in the Upper Permian were encountered and the well was plugged and abandoned.

The rig moved to the Aransay #711 location, approximately 20 kilometres east, where it spud on July 11, 2008 and was rig released on July 26, 2008. On reaching its total depth of 924 metres in the Upper Permian, the well encountered approximately 298 metres of reservoir quality rocks in the Triassic section. The Triassic was interpreted to be sandstone reservoirs trapped against a fault and was supported by a series of flat-based seismic reflectors believed to indicate a hydrocarbon/water interface. However, no shows were encountered while drilling and electric logging has confirmed the absence of hydrocarbons. Nevertheless, the presence of reservoir-quality sands of such thickness in the Triassic supports the interpretation that the Triassic is a viable primary target in the area in the presence of a proper trap and seal.

Aral has decided to release the drilling rig following plugging operations to further evaluate the portfolio of existing prospects identified in the block.

Soviet-era seismic data interpretation, mapping and the associated shallow well drilling in the Itisay, Kozdesay and West Kozdesay areas, located in the southwestern portion of the North Block, yielded minor positive tests and shows of oil associated with the post-salt sediments of Jurassic, Triassic and Upper Permian ages. A review of this data has resulted in the identification of several prospects and leads ranging from 600 to 1,800 metres in trapping positions against Permian salt ridges and under-salt overhangs. Several lines from the Company's 2006 2-D seismic program were shot across certain of these leads and prospects to verify this premise. Interpretation of most of the regional 2006 2-D seismic survey covering the west and north areas of the North Block has been completed. The interpreted data from all new seismic data acquired and from the earlier reprocessed Soviet-era 2-D seismic was combined to create a geological model and identify additional leads and prospects across the North Block territory. As a result of this work, some of the earlier leads and prospects in the post-salt sediments

identified on vintage maps and seismic in three areas in the south western portion of the North Block, known as Itisay, Kozdesay and West Kozdesay have been confirmed and in addition several new leads and drillable prospects have been identified in trapping positions against Permian salt ridges and under salt overhangs. Drilling for these targets is expected to begin in 2008.

Future seismic activity includes a third 3-D seismic acquisition, pending the results of the upcoming drilling campaign and further ongoing 2-D seismic interpretation.

The relatively shallow post salt targets at Baktygaryn offer a completely new series of opportunities for the Company. The 3-D and 2-D seismic data have enabled several new prospects to be identified and the Company is now in the process of selecting additional drilling locations.

The Company's work program extension, with the ROK, to December 2007 has now been extended for an additional two-year period, subject to the terms of the original exploration contract. The 2008 work program commits the Company to undertake US\$8.6 million of exploration expenditures prior to the close of that calendar year and the 2009 work program – US\$10.5 million of exploration expenditures. Additionally, during 2008, Aral is obligated to make-up an additional US\$ 7.1 million in cumulative shortfalls under the contract. At June 30, 2008, Aral had expended approximately \$US 7.3 million discharging this shortfall.

Balance Sheet

	June 30, 2008 \$	December 31 2007 \$
Assets		
Current assets		
Cash and cash equivalents	6,005,587	4,373,919
Accounts receivable	2,404,677	935,773
Prepays and other deposits	2,661,819	2,310,302
Inventory (note 3)	880,239	454,302
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	11,952,322	8,074,296
Restricted cash (note 5)	264,003	253,132
Property, plant and equipment (note 4)	128,844,891	124,795,793
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	141,061,216	133,123,221
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,763,126	3,458,427
Asset retirement obligation (note 5)	276,093	252,279
Loan payable (note 6)	7,123,255	6,947,055
Future income taxes	992,350	967,400
Convertible debentures (note 7)	18,863,925	17,669,238
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	32,018,749	29,294,399
Shareholders' Equity		
Share capital (note 8)	124,444,925	121,470,892
Warrants to purchase common shares (note 9)	1,893,416	946,508
Contributed surplus (note 10)	15,408,976	14,467,311
Deficit	(32,704,850)	(33,055,889)
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	109,042,467	103,828,822
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	141,061,216	133,123,221
Going concern (note 1)		

See accompanying notes to consolidated financial statements.

Interim Consolidated Statement of Income (Loss), Comprehensive Income (Loss) and Deficit

(Unaudited)

	Three months ended June 30, 2008 \$	Three months ended June 30, 2007 \$	Six months ended June 30, 2008 \$	Six months ended June 30, 2007 \$
Revenue				
Oil and gas revenue, net	3,363,412	1,889,400	6,800,193	2,247,397
Interest	21,606	1,520,836	38,777	1,648,185
Other	12,937	(66,251)	48,544	2,492
	<u>3,397,955</u>	<u>3,343,985</u>	<u>6,887,514</u>	<u>3,898,074</u>
Expenses				
General and administrative	975,358	984,878	1,748,174	1,589,198
Accretion of convertible debentures (note 6)	75,015	78,590	150,923	164,602
Interest	491,648	1,190,266	984,796	1,651,059
Operating	739,329	560,577	1,982,960	927,206
Transportation	728,223	156,504	961,270	184,713
Stock-based compensation (note 8)	907,123	1,877,803	941,665	2,473,717
Foreign exchange loss (gain)	335,280	3,346,492	(1,006,800)	3,084,189
Depletion, depreciation and accretion	364,983	760,078	773,487	811,728
	<u>4,616,959</u>	<u>8,955,188</u>	<u>6,536,475</u>	<u>10,886,412</u>
Net income (loss) and comprehensive income (loss) before income taxes	(1,219,004)	(5,611,203)	351,039	(6,988,338)
Future income taxes	-	448,569	-	448,569
Net income (loss) and comprehensive income (loss) for the period	(1,219,004)	(6,059,772)	351,039	(7,436,907)
Deficit – Beginning of period	(31,485,846)	(21,224,336)	(33,055,889)	(19,847,201)
Deficit – End of period	(32,704,850)	(27,284,108)	(32,704,850)	(27,284,108)
Basic income (loss) per share (note 7)	(0.01)	(0.06)	0.00	(0.07)
Diluted income (loss) per share (note 7)	(0.01)	(0.06)	0.00	(0.07)

See accompanying notes to consolidated financial statements.

Interim Consolidated Statement of Cash Flows

(Unaudited)

	Three months ended June 30, 2008 \$	Three months ended June 30, 2007 \$	Six months ended June 30, 2008 \$	Six months ended June 30, 2007 \$
Cash provided by (used in)				
Operating activities				
Net income (loss) and comprehensive income (loss) for the period	(1,219,004)	(6,059,771)	351,039	(7,436,907)
Items not affecting cash				
Stock-based compensation	907,123	1,877,803	941,665	2,473,717
Unrealized foreign exchange loss (gain)	102,423	2,324,801	(1,108,471)	2,737,540
Depletion, depreciation and accretion	364,983	760,078	773,487	811,728
Accretion of convertible debentures	75,015	78,590	150,923	164,602
Future income taxes	-	448,569	-	448,569
Interest on convertible debentures	118,798	468,409	606,172	925,792
Interest on inter-company advance	-	(748,372)	-	(748,372)
	349,338	(849,893)	1,714,815	(623,331)
Changes in non-cash working capital balances	313,397	(418,509)	(1,468,904)	(336,650)
	662,735	(1,268,402)	245,911	(959,981)
Financing activities				
Loan payable	(63,681)	-	176,200	-
Restricted cash	2,232	18,526	(10,871)	15,693
Issuance of common shares and warrants	4,347,635	-	4,347,635	-
Share issue expenses	(426,694)	-	(426,694)	-
	3,859,492	18,526	4,086,270	15,693
Investing activities				
Acquisition of property, plant and equipment	(1,726,991)	4,496,504	(3,227,783)	(5,502,127)
Changes in non-cash working capital balances	(233,057)	(5,558,027)	527,270	(4,950,252)
	(1,960,048)	(1,061,523)	(2,700,513)	(10,452,379)
Increase (decrease) in cash and cash equivalents	2,562,179	(2,311,399)	1,631,668	(11,396,667)
Cash and cash equivalents – Beginning of period	3,443,408	7,937,017	4,373,919	17,022,285
Cash and cash equivalents – End of period	6,005,587	5,625,618	6,005,587	5,625,618
Interest received and paid				
Interest received	21,606	54,691	38,777	183,840
Interest paid	365,847	-	365,847	-

See accompanying notes to consolidated financial statements.

Notes to Interim Consolidated Financial Statements

Nature of operations

Caspian Energy Inc. ("Caspian" or 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% interest in Aral Petroleum Capital LLP ("Aral"), held by Caspian Ltd. 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 was extended for a two-year period (expiring in December 2007) and a further extension of two years to December 31, 2009 with a minimum work commitment of US \$19.1 million has now been placed into effect.

Under the terms of the Exploration Contract, Aral was 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. The minimum work program matured at the end of calendar 2005. As of December 31, 2005, Aral's financial obligation under the minimum work program had been discharged. The work program extension to December 2008 includes drilling three wells to a combined total of 8,500 metres with a monetary obligation of US \$20.15 million. At December 31, 2007, Aral had contract shortfalls aggregating US \$7.1 million. Management of Aral believes the Company is in compliance with its commitments under the Minimum Working Program and has received authorization from the Ministry of Energy and Natural Resources and other competent bodies to carry over fulfillment of the above shortfalls to the year ending December 31, 2008. At June 30, 2008, Aral had expended approximately US \$7.3 million toward discharging the shortfall.

Under terms of a shareholders' agreement dated June 25, 2004, among Caspian Ltd., Azden Management Limited ("Azden") and Aral, Caspian was committed to fund Aral's US \$20.8 million obligation under the initial work program. This financial commitment was satisfied, in full, by the Company. In addition, Caspian Ltd. undertook, on a best efforts basis, to raise financing of US \$84.0 million to fund Aral's operations pursuant to the Exploration Contract. At March 31, 2007, Caspian Ltd. had discharged this undertaking.

Going concern

These financial statements have been prepared in accordance with Canadian generally accepted accounting policies ("GAAP") applicable to a going concern, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company reported a net income of \$351,039 and funds generated from operations of \$1,912,833 for the period ended June 30, 2008. The Company had net working capital of \$7,189,196. As a result, there is substantial doubt about the Company's ability to continue as a going concern. The Company's continuation is dependent upon the ability to raise capital and the success of its drilling and exploration program.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material.

Significant accounting policies

The consolidated financial statements of Caspian are stated in Canadian dollars and have been prepared in accordance with Canadian GAAP.

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.

Inventory

Inventory is recorded at the lower of cost calculated using the weighted average method, and net realizable value. Cost comprises direct materials and where applicable direct labour costs and those overheads which have been incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Joint ventures

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

Property, plant and equipment

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.

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 on a ratio of six thousand cubic feet of gas to one barrel of oil. Significant development projects and expenditures on exploration properties are excluded from calculation of depletion prior to assessment of the existence of proved reserves.

Other property, machinery and equipment are recorded at historical cost. Depreciation is calculated on a straight-line basis at the following annual rates:

Buildings	8%
Machinery and equipment	8%
Vehicles	7%
Other fixed assets	10%

Ceiling test

The Company follows the Canadian accounting guideline on full cost accounting. In applying the 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.

Unproved property

Costs of acquiring and evaluating unproved properties 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 proved 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.

Asset retirement obligation

Caspian records the fair value of asset retirement obligations ("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. 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 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.

Income (loss) per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period. 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. The Company applies the treasury stock method for the calculation of diluted net loss per share whereby the effect of the "in the money" instruments such as stock options and warrants affect the calculation. The treasury stock method assumes that the proceeds from the exercise are used to repurchase common shares of the Company at the weighted average market price during the year.

Financial instruments

Fair values

The fair values of accounts receivable, accounts payable and accrued liabilities, and loan payable approximate their carrying values due to their short-term maturity.

Credit risk

Substantially all of the Company's accounts receivable are due from companies in the oil and gas industry and are subject to the normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risks.

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 loss.

Changes in accounting policies

On January 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections:

- Section 1535, “*Capital Disclosures*”. This section establishes standards for disclosing information about an entity’s objectives, policies and processes for how it manages its capital. A company must also disclose qualitative data about what the entity regards as capital; and whether the company has complied with any capital requirements and if not, the consequences of such non-compliance. The Company adopted this standard effective January 1, 2008 (see note 14).
- Section 3862, “*Financial Instruments – Disclosures*”. This section describes the required disclosures to evaluate the significance of financial instruments for the entity’s financial position and performance as well as the nature and extent of risks arising from both recognized and unrecognized financial instruments to which the entity is exposed and how the entity manages those risks. The Company adopted this standard effective January 1, 2008 (see note 12).
- Section 3863, “*Financial Instruments – Presentation*”. This section establishes standards for presentation of financial instruments and non-financial derivatives. It details the presentation of the standards described in Section 3861, “*Financial Instruments – Disclosure and Presentation*”. The Company adopted this standard effective3 January 1, 2008 (see note 12).

Inventory

	June 30, 2008 \$	December 31, 2007 \$
Oil inventory	135,155	187,300
Fuel	52,624	25,748
Construction materials	2,773	2,742
Spare parts	4,518	5,004
Other materials	685,169	233,508
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	880,239	454,302
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Property, plant and equipment

	June 30, 2008 \$	December 31, 2007 \$
Petroleum and natural gas assets	130,280,463	126,806,121
Other assets	4,536,405	3,122,928
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Accumulated depletion and depreciation	134,816,868 (5,971,977)	129,929,049 (5,133,256)
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	128,844,891	124,795,793

Excluded from the depletable base of oil and gas assets at June 30, 2008 are unproved properties of \$80,854,852 (December 31, 2007 – \$72,049,847).

The Company applied the ceiling test to its capitalized assets at June 30, 2008 and December 31, 2007 and determined that there was no impairment of such carrying costs.

	WTI Crude oil price \$US/bbl
2008	90.00
2009	86.70
2010	83.20
2011	79.60
2012	78.50

The prices increase by 2% for years thereafter.

During the period ended June 30, 2008, the Company capitalized \$256,611 (December 31, 2007 – \$269,548) of general and administrative expenses related directly to exploration and development activities.