6 November 2008

CASPIAN ENERGY INC.
ANNOUNCES THIRD QUARTER 2008 FINANCIAL RESULTS

TORONTO, November 6, 2008 - Caspian Energy Inc. (the "Company" or "Caspian") (TSX and AIM: CEK) announced today its financial results for the three and nine months ending September 30, 2008.

Financial highlights

- Oil revenues before transportation costs for the three months ending September 30, 2008 were $2,231,533 (Q3 2007 - $2,074,923).

- For the three months ending September 30, 2008, Caspian's net income (loss) and comprehensive income (loss) was $634,396 (Q3 2007- $(2,295,252)).

- The Company's operations used cash of $194,528 for the three month period (Q3 2007 - provided cash of $65,943).

- Working capital position of $5.7 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 $36.53 in the same period last year to $85.02 due to the impact of international oil markets. The Company sold an average 285 Bopd during the three month period (Q3 2007 – 617 Bopd).

- The East Zhagabulak field was shut-in on August 31, 2008 upon expiration of the term of the gas flaring permit. The field was subsequently brought back into production on October 24, 2008 following the approval by the Gas Working Committee at the Ministry of Energy of the permit to enable continuation of flaring by the Company until 31 December 2009

- Following resumption of production on East Zhagabulak, 24 hour tests were completed on both EZ#302 and EZ#213 with flow rates of 560 bopd and 779 Mcfd and 196 bopd and 274 Mcfd respectively.

Outlook

- The Company has completed the official State Reserves Report for East Zhagabulak,a key element in the plan of development approval process and this was approved by the government on October 16, 2008.

- The preparation of the Technology Scheme, which outlines the detailed plan of development of the field, is now underway with completion expected by the end of this month. Consequently, the Company anticipates a development contract for the field to be issued by the end of 2008.

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

"Strong oil prices for most of the quarter continue to buoy sales revenue and consequently our working capital position is sufficient to meet our current obligations. Having returned the East Zhagabulak field to production, we hope to secure the development contract for the field before the year-end."

For further information contact:

Caspian Energy Inc.
William Ramsay
President and Chief Executive Officer
00 44 (0)20 7861 3232

Bell Pottinger Corporate and Financial
Sarah Williams
00 44 (0)20 7861 3232

Jefferies International Limited
Jack Pryde / Oliver Griffiths
00 44 (0)20 7029 8000

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.

NOT FOR DISTRIBUTION TO UNITED STATES NEWSWIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES.

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, productions 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. On November 3, 2008 a 24 hour test was conducted on EZ#301, with the following results: 560 Bo (barrels of oil), 17 Bw (barrels of water), 779 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 338, SICP(shut-in casing pressure) 1,911, flow line pressure 121 psig at a 12.0 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 was 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. On November 3, 2008 a 24 hour test was conducted on EZ#213, with the following results: 196 Bo (barrels of oil), 101 Bw (barrels of water), 274 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 250, SICP(shut-in casing pressure) 1,720, flow line pressure 110 psig at an 8.7 mm choke. The Company has initiated the development process for East Zhagabulak. The preparation of the official State Reserves Report for the development of the East Zhagabulak field is complete and was approved by the government on October 16, 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. Supported by the completed and approved Reserve Report and Technology Scheme, the issue of a development contract for the field is expected before the end of the calendar year.

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.

The first post-salt well identified from the Baktygaryn 3-D survey, Baktygaryn #703, was spud in March 2008. It then reached total depth of 2,521 metres in June following which it was rig-released. 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 diaper 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 then 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.

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 work program extension to December 31, 2009 includes drilling seven wells to a combined total of 8,500 metres with a monetary obligation of US $19.1 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 September 30, 2008, Aral had expended approximately US $11.3 million toward discharging these obligations.

Balance Sheet

	Sept 30 2008 $	Dec 31 2007 $
Assets		
Current assets		
Cash and cash equivalents	5,323,091	4,373,919
Accounts receivable	945,198	935,773
Prepaids and other deposits	2,773,997	2,310,302
Inventory (note 3)	1,121,699	454,302
	10,163,985	8,074,296
Restricted cash (note 5)	272,095	253,132
Property, plant and equipment (note 4)	132,068,980	124,795,793
	142,505,060	133,123,221
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,502,781	3,458,427
Asset retirement obligation (note 5)	295,844	252,279
Loan payable (note 6)	7,380,512	6,947,055
Future income taxes	1,032,217	967,400
Convertible debentures (note 7)	19,582,301	17,669,238
	32,793,655	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)	15,443,518	14,467,311
Deficit	(32,070,454)	(33,055,889)
	109,711,405	103,828,822
	142,505,060	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 e Sept 30, 2008 $	Three months e Sept 30, 2007 $	Nine months er Sept 30, 2008 $	Nine months er Sept 30, 2007 $
Revenue				
Oil and gas revenue, net	2,231,533	2,074,923	9,031,726	4,322,320
Interest	26,848	995,862	65,625	2,644,047
Other	80,466	(14,866)	129,010	(12,374)
	2,338,847	3,055,919	9,226,361	6,953,993
Expenses				
General and administrative	737,481	866,105	2,485,655	2,455,303
Accretion of convertible debentures (note 7)	77,027	74,718	227,950	239,320
Interest	514,532	1,007,228	1,499,328	2,658,287
Operating	654,779	577,762	2,637,739	1,504,968
Transportation	768,939	201,915	1,730,209	386,628
Stock-based compensation (note 9)	34,542	217,906	976,207	2,691,623
Foreign exchange loss (gain)	(1,340,899)	1,615,211	(2,347,699)	4,699,400
Depletion, depreciation and accretion	258,050	575,140	1,031,537	1,386,868
	1,704,451	5,135,985	8,240,926	16,022,397
Net income (loss) and comprehensive income (loss) before income taxes	634,396	(2,080,066)	985,435	(9,068,404)
Future income taxes (recovery)	-	215,186	-	663,755
Net income (loss) and comprehensive income (loss) for the period	634,396	(2,295,252)	985,435	(9,732,159)
Deficit – Beginning of period	(32,704,850)	(27,284,108)	(33,055,889)	(19,847,201)
Deficit – End of period	(32,070,454)	(29,579,360)	(32,070,454)	(29,579,360)
Basic income (loss) per share (note 8)	0.01	(0.02)	0.01	(0.09)
Diluted income (loss) per share (note 8)	0.01	(0.02)	0.01	(0.09)

See accompanying notes to consolidated financial statements.

Interim Consolidated Statement of Cash Flows

(Unaudited)

	Three months ended Sept 30, 2008 $	Three months ended Sept 30, 2007 $	Nine months ended Sept 30, 2008 $	Nine months ended Sept 30, 2007 $
Cash provided by (used in)				
Operating activities				
Net loss for the period	634,396	(2,295,252)	985,435	(9,732,159)
Items not affecting cash				
Stock-based compensation	34,542	217,906	976,207	2,691,623
Unrealized foreign exchange loss (gain)	(1,340,818)	1,289,389	(2,251,184)	4,192,333
Depletion, depreciation and accretion	258,050	575,140	1,031,537	1,386,868
Accretion of convertible debentures	77,027	74,718	227,950	239,320
Future income taxes (recovery)	-	215,186	-	663,755
Interest on convertible debentures	142,275	461,454	748,447	1,387,246
Interest on inter-company advance	-	(472,598)	-	(1,204,770)
	(194,528)	65,943	1,718,392	(375,784)
Changes in non-cash working capital balances	1,459,479	185,311	(9,425)	(151,339)
	1,264,951	251,254	1,708,967	(527,123)
Financing activities				
Loan payable	257,257	1,500,124	433,457	1,500,124
Restricted cash	(8,092)	8,805	(18,963)	24,498
Issuance of common shares and warrants	-	-	4,347,635	-
Share issue expenses	-	-	(426,694)	-
	249,165	1,508,929	4,335,435	1,524,622
Investing activities				
Acquisition of property, plant and equipment	(1,582,716)	(1,873,654)	(5,008,517)	(7,557,385)
Changes in non-cash working capital balances	(613,896)	293,456	(86,713)	(4,656,796)
	(2,196,612)	(1,580,198)	(5,095,230)	(12,214,181)
Increase (decrease) in cash and cash equivalents	(682,496)	179,985	949,172	(11,216,682)
Cash and cash equivalents – Beginning of period	6,005,587	5,625,618	4,373,919	17,022,285
Cash and cash equivalents – End of period	5,323,091	5,805,603	5,323,091	5,805,603
Interest paid and received				
Interest received	26,848	50,667	65,625	234,507
Interest paid	364,032	-	729,879	-

See accompanying notes to consolidated financial statements.

1 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 2007 included 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. The work program extension to December 31, 2009 includes drilling seven wells to a combined total of 8,500 metres with a monetary obligation of US $19.1 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 September 30, 2008, Aral had expended approximately US $11.3 million toward discharging these obligations.

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 $985,435 and funds generated from operations of $1,718,392 for the period ended September 30, 2008. The Company had net working capital of $5,661,204. 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.

2 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

a) Capitalized costs

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

b) Depletion, depreciation and amortization

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

c) 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.

d) Unproved property

Costs of acquiring and evaluating unproven 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 proven reserves are determined or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion for that country's cost centre.

e) Asset retirement obligation

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).

3 Inventory

	Sept 30, 2008 $	**Dec 31, 2007 $**
Oil inventory	421,601	187,300
Fuel	16,052	25,748
Construction materials	2,836	2,742
Spare parts	2,303	5,004
Other materials	678,907	233,508
	1,121,699	454,302

4 Property, plant and equipment

	Sept 30, 2008 $	**Dec 31, 2007 $**
Petroleum and natural gas assets	132,928,535	126,806,121
Other assets	5,046,722	3,122,928
	137,975,257	129,929,049
Accumulated depletion and depreciation	(5,906,277)	(5,133,256)
	132,068,980	124,795,793

Excluded from the depletable base of oil and gas assets at September 30, 2008 are unproved properties of $83,488,859 (December 31, 2007 – $72,049,847).

The Company applied the ceiling test to its capitalized assets at September 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 September 30, 2008, the Company capitalized $356,012 (December 31, 2007 – $269,548) of general and administrative expenses related directly to exploration and development activities.

5 Asset retirement obligation

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

The asset retirement obligation results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations at September 30, 2008 is $282,605, which will be incurred between 2014 and 2019. A credit-adjusted risk-free rate of 16.5% was used to calculate the fair value of the asset retirement obligations, and an inflation factor of 19.0%.

A reconciliation of the asset retirement obligation is provided below:

	Sept 30, 2008 $	Dec 31, 2007 $
Opening balance	252,279	156,255
Liabilities incurred	16,878	94,490
Accretion	26,687	19,574
Change in estimate	-	(18,040)
Closing balance	295,844	252,279

Under the terms of the Exploration Contract (note 1), the Company is required to create a fund to finance actual future restoration costs, equal to 1% of the capital costs of exploration. At September 30, 2008 and December 31, 2007, $272,095 and $253,132, respectively have been placed in a restricted bank account related to the funding requirement.

6 Loan payable

Pursuant to the Participants Agreement By and Among Azden Management Limited and Caspian Energy Ltd. and Aral Petroleum Capital Limited Liability Partnership, subsequent to reaching the US $84 million threshold on advances by Caspian to Aral, Caspian and Azden shall jointly finance, in equal proportions, the next stages of exploration by Aral. As at September 30, 2008 and December 31, 2007, respectively,

$7,380,512 and $6,947,055 had been advanced by Azden to Aral and is recorded as a loan payable in Aral's accounts.

7 Convertible debentures

On March 1, 2006, the Company received US $16 million and issued 10% per annum, convertible debentures in a like amount secured with Caspian Ltd. shares. The debentures mature on March 2, 2011 and are convertible at any time and from time to time into common shares of the Company at a conversion price of $2.45 per share. The Company may repay the principal amount of the debentures, in whole or in part, or require conversion into common shares of the Company if the volume-weighted average trading price of the common shares, for 40 consecutive trading days, is at least $4.08.

	Face amount $	Fair value of conversion option $	Accretion $	Interest $	Carrying value $
Debentures issued, opening balance	15,712,000	(1,483,805)	674,480	2,766,563	17,669,238
Accretion of discount	-	-	227,950	-	227,950
Translation adjustment	390,743	-	-	545,923	936,666
Interest accrual	-	-	-	748,447	748,447
Balance – September 30, 2008	16,102,743	(1,483,805)	902,430	4,060,933	19,582,301

8 Share capital

Authorized

Unlimited number of voting common shares, without stated par value

Issued

	Number of shares	Amount $
Issued and outstanding as at December 31, 2005	84,327,163	75,220,762
Exercise of warrants (i)	357,100	888,505
Private placement (ii)	19,609,000	49,056,442
Exercise of options (iii)	50,000	87,500
Share issue costs (iv)	-	(3,782,317)
Issued and outstanding as at December 31, 2007 and 2006	104,343,263	121,470,892
Warrants expired (v)	-	946,508
Issued pursuant to Rights Offering (vi)	17,390,543	2,454,220
Share issue costs (iv)	-	(426,695)
Issued and outstanding as at September 30, 2008	121,733,806	124,444,925

i) During the period, 357,100 broker warrants were exercised. The warrants had an exercise price of $2.00 per common share.

ii) On April 5, 2006 a private placement of 19,609,000 common shares were issued at $2.55 per share.

iii) On April 10, 2006, 50,000 common shares at $1.75 per were issued pursuant to the Company's stock option plan.

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

v) On April 5, 2008, 588,270 broker warrants, with fair value of $945,508, which entitled the holder to purchase one common share at a price of $2.77 expired unexercised.

vi) A Rights Offering, which closed May 28, 2008, placed 17,390,543 units at a price of $0.25 per unit. Each unit comprised one common share in the Company and one-half of one share purchase warrant.

Stock options

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

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

	Number of options	Weighted average option price $
Balance – December 31, 2005	9,166,499	1.72
Granted	1,943,433	1.29
Exercised	(50,000)	1.75
Balance – December 31, 2006	11,059,932	1.64
Granted	2,668,845	0.88
Expired	(400,000)	2.15
Balance –December 31, 2007	13,328,777	1.47
Granted	2,869,527	0.36
Balance – September 30, 2008	16,198,304	1.28
Exercisable – September 30, 2008	15,831,637	1.28

The following is a summary of stock options outstanding and exercisable as at September 30, 2008:

	Options outstanding		Options exercisable	
Range of exercise price	**Options outstanding**	**Weighted average remaining contractual life in years**	**Weighted average exercise price**	**Options exercisable**
$0.36	2,869,527	4.7	$0.36	2,869,527
$0.75	2,079,090	1.0	$0.75	2,079,090
$0.86	800,000	3.4	$0.86	733,333
$0.89	1,868,845	3.5	$0.89	1,868,845
$1.25	1,043,433	3.0	$1.25	1,043,433
$1.34	900,000	3.3	$1.34	600,000
$1.61	843,271	1.7	$1.61	843,271
$1.75	1,100,000	1.7	$1.75	1,100,000
$2.00	1,050,000	1.3	$2.00	1,050,000
$2.15	3,644,138	1.0	$2.15	3,644,138
	16,198,304		$1.28	15,831,637

Per share amounts

The weighted average number of common shares outstanding during the period ended September 30, 2008 of 121,733,805 (September 30, 2007 – 104,343,263 shares) was used to calculate income (loss) per share amounts.

In computing diluted income (loss) per share, no shares were added to the weighted average number of common shares outstanding during the period ended September 30, 2008 (September 30, 2007 – nil) as they are anti-dilutive.

Warrants

8,695,262 share purchase warrants are outstanding at September 30, 2008. Each warrant is exercisable at an exercise price of $0.45 until the earlier of May 28, 2011 or 30 days following the receipt of a notice from the Company that the closing price of the shares for any 20 consecutive trading days exceeded $0.75. The fair value of the outstanding warrants using the Black-Scholes method was $1,893,416.

On April 5, 2008, 588,270 broker warrants, with a fair value of $945,508, which entitled the holder to purchase one common share at a price of $2.77, expired unexercised.

9 Stock-based compensation

Options granted to both employees and non-employees are accounted for using the fair value method. The fair value of common share options granted in the period ended September 30, 2008 was estimated to be $872,581 as at the grant date. The cost of options granted is amortized using a Black-Scholes option-pricing model and the following assumptions:

Risk free interest rate	4.11 – 4.27%
Expected life	5 year average

Expected volatility	84 – 122%
Expected dividend yield	0%

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

10 Contributed surplus

	Sept 30, 2008 $	Dec 31, 2007 $
Balance – Beginning of period	14,467,311	12,030,272
Stock options issued to employees, officers and directors	976,207	2,437,039
Balance – End of period	15,443,518	14,467,311

The term and vesting conditions of each option may be fixed by the board when the option is granted, but the term cannot exceed 5 years from the date upon which the option is granted.

The options granted to directors, officers and employees may be exercised over five years from the date of granting and expire from time to time to June 2013.

11 Commitments

In accordance with the shareholders' agreement in respect of Aral, Caspian was obligated to fund the initial work program of Aral pursuant to the Exploration Contract. The minimum work program was US $20.8 million and matured at the end of calendar 2005. As at December 31, 2005, this obligation was fully discharged. The work program extension to December 2007 included drilling three wells to a combined total of 8,500 metres with a monetary obligation of US $20.15 million. No additional seismic was required. The work program extension to December 2009 includes drilling seven wells to a combined total of 8,500 metres with a monetary obligation of US $19.1 million. The Company's calendar 2006 minimum work program with the Republic of Kazakhstan was approved for US $12.2 million and was discharged during 2006. The Company's calendar 2007 work program was approved for US $8.4 million with an amendment for another US $23.7 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 September 30, 2008, Aral had expended approximately US $11.3 million toward discharging these obligations.

12 Financial instruments

The Company holds various forms of financial instruments. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established policies in setting risk limits and controls and monitors these risks in relation to market conditions.

Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

Commodity price risk

Due to the volatility of commodity prices the Company is exposed to adverse consequences in the event of declining prices. The Company may enter into oil purchase contracts in order to protect its cash flow on future sales once the status of currently producing properties has been elevated to that of "commercial" from "pilot or pre-commerciality". The purchase contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of oil. The Company has initiated the development process for the East Zhagabulak area. The preparation of the official State Reserves Report for East Zhagabulak is complete and was approved by the government on October 16, 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.

Credit risk

Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies who have excellent credit ratings. The Company has not experienced any credit loss in the collection of its accounts receivable.

Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company has established a standard of ensuring that it has enough available resources to withstand any downturn in the industry. As our industry is very capital intensive, the majority of our spending is related to our capital programs. See note 14 for disclosure related to the management of our capital program. The Company's goal is to prudently spend its capital while maintaining its credit reputation amongst its suppliers.

Fair values of financial instruments

The carrying value of financial instruments, which includes accounts receivable, deposits, accounts payable and accrued liabilities and loan payable approximates amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties. The fair value of accounts receivable, deposits, accounts payable and accrued liabilities and loan payable approximates their carrying amounts due to their short term nature. Caspian's convertible debentures, issued in USD, mature on March 2, 2011, bear interest at 10% per annum have a fair market value approximating the carrying value.

As at each reporting period the Company will assess whether a financial asset, other than those classified as held-for-trading is impaired. Any impairment loss will be included in earnings for the period.

13 Segmented information

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

	Canada $	Kazakhstan $	Total $
Revenue			
Oil and gas revenue, net	19,744	9,011,982	9,031,726
Interest	65,625	-	65,625
Other	10,000	119,010	129,010
	95,369	9,130,992	9,226,361
Expenses			
General and administrative	2,153,264	332,391	2,485,655
Accretion of convertible debentures	227,950	-	227,950
Interest	1,499,328	-	1,499,328
Operating	4,766	2,632,973	2,637,739
Transportation	198	1,730,011	1,730,209
Stock-based compensation	976,207	-	976,207
Foreign exchange (gain) loss	(4,660,631)	2,312,932	(2,347,699)
Depletion, depreciation and accretion	3,750	1,027,787	1,031,537
	204,832	8,036,094	8,240,926
Net income (loss) for the period	(109,463)	1,094,898	985,435
Assets			
Current assets	4,706,370	5,457,615	10,163,985
Restricted cash	-	272,095	272,095
Property, plant and equipment, net	25,423	132,043,557	132,068,980
	4,731,793	137,773,267	142,505,060
Liabilities	20,545,692	12,247,963	32,793,655

14 Capital disclosures

The Company considers its capital structure to include shareholders' equity, convertible debentures and working capital. The Company will adjust its capital structure to manage its current and projected requirements through the issuance of shares and other related instruments, establishing a bank line of credit and/or adjusting its capital spending. The Company monitors its capital based on the current and projected exploration and development expenditures pursuant to its contract commitments in Kazakhstan.

The Company's objectives in managing its capital structure are to:

a) Create and maintain flexibility so that the Company can continue to meet its financial and capital obligations; and

b) assure its growth either through wholly-funded exploration and development projects, joint venture relationships, including farm-out opportunities or asset/corporate acquisitions.

The Company monitors the effectiveness of its capital structure by the preparation and revisions to an annual budget, which is updated at the time any significant farm-out, acquisition or disposition, a change in economic circumstances outside the control of the Company, and success or failure of capital deployed. Each of the annual budget and the quarterly updates are approved by the Board of Directors.

15 Reconciliation of international financial reporting standards

Accounting practices under Canadian GAAP and International Financial Reporting Standards ("IFRS") are, as they affect these financial statements, substantially the same except for the following:

Property and equipment

Under Canadian GAAP, an impairment loss should be recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Unproved properties and major development projects are included in this recoverability test. A cost centre impairment loss should be measured as the amount by which the carrying amount of assets capitalized in a cost centre exceeds the sum of:

- the fair value of proved and probable reserves; and
- the costs (less any impairment) of unproved properties that have been subject to a separate test for impairment and contain no probable reserves

For costs beyond the exploration and evaluation stage, IFRS requires (i) an impairment to be recognized when the recoverable amount of an asset (cash generating unit) is less than the carrying amount; (ii) the impairment loss to be determined as the excess of the carrying amount above the recoverable amount (the higher of fair value less costs to sell and value in use, calculated as the present value of future cash flows from the asset), rather than the excess of the carrying amount above the undiscounted future cash flows of the asset; and (iii) the reversal of an impairment loss when the recoverable amount changes. A ceiling test based on cash generating units did not reveal the need for an impairment charge.

For exploration and evaluation costs, IFRS 6 has been adopted effective January 1, 2005. IFRS 6 allows for continued application of an entity's existing policy with respect to accounting for exploration and evaluation costs.

Impairment of long-lived assets

Under Canadian GAAP, a long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. Under IFRS, the carrying amounts of the Company's assets, other than oil and gas properties, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses, if any, are recognized in the income statement. This difference in accounting policy has no impact on these financial statements.

Under Canadian GAAP, the carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. This assessment is based on the carrying amount of the asset at the date it is tested for recoverability, whether it is in use or under development. Under IFRS, the recoverable amount of the Company's assets other than oil and gas properties is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. This difference in accounting policy has no impact on these financial statements.

In respect of impairment of assets other than oil and gas properties, under Canadian GAAP, an impairment loss is not reversed if the fair value subsequently increases. For IFRS, an impairment loss may be reversed if there has been a change in the estimates used to determine the recoverable value.

An impairment loss, on assets other than oil and gas properties, is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. This difference in accounting policy has no impact on these financial statements.

Asset retirement obligation

In re-measuring an asset retirement obligation for the passage of time, Canadian GAAP requires re-measurement based on the risk-free rate that existed when the liability was initially measured. IFRS requires the use of current market assessed interest rates in each estimate. This difference did not result in a material reconciling item.

Inventory

Under Canadian GAAP, the Company measures its supplies inventory at the lower of historical cost or net replacement cost. Under IFRS, the lower of cost or net realizable value principle would apply. This difference did not result in a material reconciling item.