AMENDED MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Amended Management's Discussion and Analysis ("MD&A") of operating and financial results as provided by the management of Caspian Energy Inc. ("Caspian" or "the Corporation" or "the Company") is based on currently available information. This commentary should be read in conjunction with the audited Consolidated Financial Statements (Amended) and notes for the years ended December 31, 2013 and 2012 along with any other documents filed on www.sedar.com. This MD&A has been prepared effective November 10, 2014.

Caspian is a Canadian-based junior oil and gas exploration and development company, with interests in the Republic of Kazakhstan, whose common shares are traded on the NEX sub-component of the TSX Venture Exchange under the symbol "CKZ.H".

References to "we", "us" and "our" in this MD&A are to the Company and all references to dollars are in Canadian dollars, unless otherwise indicated. Additional information relating to the Company, including its annual information form, is available on SEDAR at www.sedar.com.

Basis of presentation

These audited consolidated financial statements (amended), which present the Corporation's financial position for December 31, 2013 and financial performance as at and for the years ended December 31, 2013 and 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in effect for the fiscal year beginning January 1, 2013.

On January 1, 2013, the Company adopted new standards for IFRS 10, "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement" as well as consequential amendments to IAS 28 "Investments in Associates and Joint Ventures".

On January 1, 2014, the Company adopted amendments to IAS 24 Related Party Disclosures, IAS 32 Financial Instruments: Presentation, IAS 36 Impairment of Assets and IAS 39 Financial Instruments: Recognition and Measurement. The adoption of these amendments had no impact on the Company's unaudited condensed interim consolidated financial statements.

Management wishes to direct readers to Note 21 of the Consolidated Financial Statements (Amended) for the years ended December 31, 2013 and 2012, where the Company's 40% interest in the joint arrangement in Aral Petroleum Capital LLP is disclosed. In connection with certain regulatory requirements for the approval and closing of the Share Purchase Agreement, Aral's financial statements for the years ended December 31, 2013, 2012 and 2011 were restated. As a result, the Company amended the disclosure of selected financial information for Aral to reflect information from Aral's restated financial statements.

Forward-looking statements and other information

This MD&A contains forward-looking statements. Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: the performance characteristics of the Company's oil and natural gas properties; drilling plans and the timing and location thereof; plans for the exploration and development of the North Block; plans for

seismic acquisition and surveys; production capacity and levels, and the timing of achieving such capacity and levels; the level of expenditures for compliance with environmental regulations; the size of oil and natural gas reserves; projections of market prices and costs; supply and demand for oil and natural gas; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; and capital expenditure programs.

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

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS measurements

The financial data presented has been prepared in accordance with International Financial Reporting Standards except for the measure "Operating Netback" contained in this document does not have a standardized meaning as prescribed by IFRS and is considered a non-IFRS measure. This measure has been described and is presented in this document in order to provide shareholders and potential investors with additional information regarding the Company's oil field operations in the Republic of Kazakhstan. It indicates the return the Company realizes upon lifting oil from the ground, less the pertinent burdens.

Basis of barrel of oil equivalent

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent (boe) using 6,000 cubic feet ("6 mcf") equal to one barrel (6:1), unless otherwise stated. The boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore boe may be misleading if used in isolation. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

Business of the Company

Caspian has a 40% joint arrangement in Aral Petroleum Capital LLP ("Aral"), which is held by Caspian Energy Ltd. ("Caspian Ltd."), the Company's wholly-owned subsidiary, through which it has the right to explore and develop certain oil and gas properties in the Republic of Kazakhstan ("ROK") known as the North Block, a 1,467 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company's strategy is to focus on the operations of Aral and the significant opportunity it presents in the North Block. See **Corporate overview and developments** where the details of the joint arrangement are more fully disclosed.

Aral's exploration and development rights in the North Block were granted pursuant to an exploration contract dated December 29, 2002 between Aral and the Ministry of Energy and Mineral Resources of the ROK (the "Exploration Contract").

Caspian accesses western capital markets and utilizes western technology to explore and exploit its Kazakh assets. The proceeds from its financing activities are used to finance its ongoing administrative expenses and when necessary fund the exploration program and support pilot production in the North Block. The operational strategy, executed through Aral, of Caspian is as follows:

- To prove-up the maximum amount of reserves with the minimum number of wells
- To utilize 3-D seismic and international standards and evaluation technology
- To focus initially on the Zhagabulak area in the North Block, where the pilot production exists, then move to the Sakramabas area and subsequently, other areas within the North Block
- To position the Company to maximize value to the investor through development of the North Block
- To be aware of competitive efforts and resultant opportunities that may manifest themselves in the form of reserves/production acquisitions

The aforementioned strategies relate to future events and performance and are subject to uncertainties that may dictate a future change in strategy or cause actual results of the Company's operations to differ.
Kazakhstan's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Country, a low level of liquidity of debt and equity securities in the markets and relatively high inflation. Additionally, the oil and gas industry in Kazakhstan is impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Company's control. The financial condition and future operations of the Company may be adversely affected by continued uncertainties in the business environment of Kazakhstan. Management is unable to predict the extent and duration of these uncertainties, nor quantify the impact, if any, on the financial statements. Tax legislation and practice in Kazakhstan are in the developmental stage and therefore are subject to varying interpretations and frequent changes, which may be retroactive.

See "Forward-looking statements and other information".

East Zhagabulak (EZ)

The Zhagabulak Area is located in the southeastern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 642 million barrels of oil in place with 193 million barrels classified as recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but is seeking to validate this data through its exploration program.

Baktygaryn

The Baktygaryn Area is located in the northwestern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 997 million barrels of oil in place with 274 million barrels classified as recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but seeks to validate this data through its exploration program.

Itisay, Kozdesay and West Kozdesay

These three Areas are located in the southwestern portion of the North Block and collectively, are viewed as one prospect. The Government of Kazakhstan has estimated that these Areas contain 567 million barrels oil in place and 170 million barrels recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but seeks to validate this data through its exploration program.

Other areas within The North Block

Following are some of the other exploration areas within the North Block and their reserve estimates as put forth by the Government of Kazakhstan. Again, Caspian neither accepts nor denies these estimates, but seeks to validate this data through its exploration program: Tashir – 126 million barrels oil in place and 38 million barrels recoverable, Bulash – 116 million and 35 million, respectively, and Shegelshy – 90 million and 31 million, respectively. The grand totals estimated by the Kazakh Government for all prospects in the North Block are 1,320 million barrels oil in place and 356 million barrels oil recoverable.

Corporate overview and developments

The Corporation has put a primary focus on the conversion of its Convertible Debentures, which matured on June 2, 2013, obtaining gas flaring/emission permits and extending the Exploration Contract in the Republic of Kazakhstan.

Since the Company's most significant activity is its joint arrangement in Aral Petroleum Capital LLP (APC), included beneath is an abbreviated description of current events and sales/production data pertinent to Aral.

The East Zhagabulak field was shutdown on January 1, 2013 and resumed production during August 2013, until it was again shutdown at the close of December 2013, due to the expiration of the temporary gas flaring permit.

For production to re-commence, a gas flaring permit and an emissions permit must be approved by the appropriate regulatory bodies. The application process is bureaucratic and lengthy.
The East Zhagabulak field resumed production on September 19, 2014. Well 301 was the first well back on-stream, directly followed by Wells 306 and 315. Initial stabilized production rates were: Well 301-449 Bopd, Well 306 – 475 Bopd and Well 315 – 448 Bopd. Wells 213 and 308 are potentially productive, currently awaiting remedial workovers.

The ROK (Republic of Kazakhstan) MOG (Ministry of Oil and Gas, subsequently redesignated the Ministry of Energy) proposed a joint arrangement, which was subsequently executed, between Aral, JSC "KazTransGas" and number of other subsoil users. This arrangement called for the development of a Feasibility Study Report entitled "The Integrated Use of Associated Gas by the Subsoil Users of the Aktobe Oblast". The eventual outcome of the Feasibility Study was a plan is to build a Gas Processing Plant for the associated subsoil users, including Aral. This study manifested itself as "The Program of Development and Processing of Associated Gas in East Zhagabulak", valid for three years duration, which permits gas flaring during the calendar years 2014-2016, inclusive. Consent for the program was granted by the necessary state bodies and has been approved by the Ministry of Energy.

The East Zhagabulak field now has the status of being in the "development phase". Consequently, the issue of lengthy approval processes for work to be undertaken is historical. Work which may result in the emission of gas continues to have to wait until gas flaring/emission permits are procured. Non-gas related work to be undertaken includes the pulling out of a pump from well 213 and isolation work, in well 308, to deal with the problem of cementing in the wellbore. As of now, the tender for this work in wells 213 and 308 has not been published due to lack of funds.

With the exception of East Zhagabulak the remainder of the North Block is subject to an Exploration Contract which expires on December 29, 2014. Presently, no work is planned in this area pending Contract extension approval.

Aral received a four year extension for its Exploration Licence to December 2018, provided that certain additional commitments under the Contract are discharged. The approved Minimum Work Program for the Licence period contains a financial commitment for eligible expenditures equal to US $42,760,000 – to drill wells at Aransay, Baktygaryn, North-West Alibekmola, Zhagabulak and the North Mortuk areas.

Based on the uncertainty surrounding the economic recoverability of Aral's proved and probable reserves given the current market and cost structure, the Company has recorded an impairment charge of $21,012 on its share of Aral's property, plant and equipment. This impairment charge has no impact on Caspian's consolidated financial position as at December 31, 2013 and consolidated financial performance for the year then ended as the carrying amount of the Company's investment in Aral has already been reduced to zero.

The agreements which amended the loan agreement between Caspian's wholly-owned subsidiary, Caspian Energy Ltd. (**CEL**), and Asia Sixth Energy Resources Limited to allow CEL to draw US$100,000 each month from June until November and to draw an additional US$1,400,000 as early as December 28, 2013 have been executed. Caspian has received all monthly instalments plus the residual balloon payment in accordance with the agreements.

In return for raising the financing contemplated in the agreements, CEL's partners in Aral, being Asia Sixth Energy Resources Limited (ASER) and its subsidiary Groenzee B.V., require CEL to transfer to them part of its ownership interest in Aral resulting in CEL's interest in Aral reducing from 40% to 33.5%. The transfer will occur upon receipt of the final instalment of funds and satisfaction of well completion precedents. Several precedents must be met, which have not occurred to date, followed by Board of Directors approval. The transfer has not yet been effected.

On June 26, 2013, the Company announced that it had received notices of a failure to make a payment from Meridian Capital International Fund, Firebird Global Master Fund, Ltd. and Firebird Avrora Fund, Ltd. (the "Convertible Debenture Holders") under Caspian's Amended and Restated Convertible Debentures dated July 8, 2011 for failure to pay the principal amount on the maturity date of June 2, 2013.

On January 10, 2014, Caspian announced that it had reached agreement with the holders of its amended and restated secured convertible debentures to amend the debentures. The conversion price was amended to the price such that, if all outstanding debentures were converted, the common shares of the Corporation issued upon the conversion would represent eighty-two and one half percent (82.5%) of the issued and outstanding common shares. Following the conversion, all debt owed to the holders was deemed paid. The deemed price of the common shares issued on the conversion will was calculated at a discount from the closing price of the common shares on the NEX of $0.02 on January 9, 2014. In addition, there was a consolidation of the common shares on the basis of ten pre-consolidation common shares for each post-consolidation common share.

On February 20, 2014, Caspian announced the completion of its common share consolidation on the basis of one new common share of Caspian for every ten pre-consolidation common shares. The conversion of Caspian's amended and restated secured convertible debentures was also completed. An aggregate of 108,319,091 post-Consolidation common shares were issued to the holders of the debentures.

Subsequent to December 31, 2013, the Company:

- Executed an agreement for conversion of Debentures for which shareholder approval was received and pursuant to which the Debentures were converted to common shares of the Company,

thereby reducing its debt burden and interest expense.

- Obtained short-term financing by way of a US$3.0 million secured convertible loan.
- Settled certain outstanding wages, consulting fees, vacation pay, termination pay, severance pay, incentive compensation, bonuses, commissions, overtime pay and any payments or claims that might be made under certain statutes in exchange for aggregate cash payments of $475,443 and the issuance of 3,138,240 common shares.
- Entered into a share purchase agreement pursuant to which the Company will acquire the remaining 60% interest in Aral thereby increasing the Company's ownership of Aral to 100%.

Between April 8 and April 12, 2013, Canadian securities regulatory authorities issued cease trade orders pertaining to the trading of the Company's securities as it had not filed its December 31, 2012 audited consolidated financial statements and management discussion and analysis. Such filings were made on April 23, 2013. Caspian's securities were cease traded by each of the ASC, the British Columbia Securities Commission and the Ontario Securities Commission between April 8 and April 12, 2013. The BCSC revoked its cease trade order on April 29, 2013 and the OSC cease trade order expired on April 27, 2013 after the aforementioned documents were filed. On September 26, 2013, Caspian filed amended management discussion and analysis for the year ended December 31, 2012, an amended Annual Information Form and amended management discussion and analysis for the quarters ended March 31, 2013 and June 30, 2013. On November 20, 2013, the ASC granted a full revocation of the cease trade order relating to the trading of Caspian's securities issued by the ASC on April 8, 2013.

On August 14, 2013, Caspian reached a settlement with the Alberta Securities Commission ("ASC") relating to an issuance of Common Shares and Warrants by Caspian to a holder of Debentures after the ASC issued a cease trade order relating to Caspian's securities. The settlement involved Caspian paying $10,000 to the ASC and undertaking to fully comply with Alberta securities laws.

On February 8, 2013, the Company received a letter from the Toronto Stock Exchange (the "TSX"), which states that the "listing of CEK's shares on the main board of the TSX is under review with respect to meeting continued listing requirements". The Company was granted 90 days in which to regain compliance with these listing requirements, pursuant to the TSX's remedial review process. Subsequently, the Company received an update from the TSX stating that the Continued Listing Committee determined to defer its delisting decision until September 12, 2013.

The delisting date was delayed by the TSX at the request of Caspian. Caspian requested the delay in order to allow further time for Caspian to pursue a listing on NEX. NEX is a unique and separate board of TSX Venture Exchange. It provides a unique trading forum for listed companies that have fallen below TSX Venture's ongoing listing standards.

The Company was delisted from the Toronto Stock Exchange at the close of trading on September 12, 2013, as it did not meet TSX minimum listing requirements nor did it meet the requirements of A TSX Venture Tier 2 company. On September 13, 2013, the shares of the Company were listed on the NEX. Caspian Energy Inc. On November 28, 2013, trading resumed at market open on the NEX under the symbol CEK.H (post-consolidation "CKZ.H").

Between May 6 and May 8, 2014, Canadian securities regulatory authorities issued cease trade orders pertaining to the trading of the Company's securities as it had not filed its December 31, 2013 audited consolidated financial statements and management discussion and analysis. Caspian's securities were cease traded by each of the ASC, the British Columbia Securities Commission and the Ontario Securities Commission between May 6 and May 8, 2014. The filings were due on April 30, 2014 and were not filed as a result of a delay in receiving audited financial statements from Aral Petroleum Capital LLP, a Kazakhstan partnership in which Caspian indirectly holds a 40% joint arrangement interest.

Summary of consolidated results

($000's except per share and production information)	Three months ended Dec. 31 2013	Three months ended Dec. 31 2012	Twelve months ended Dec. 31 2013	Twelve months ended Dec. 31 2012
Oil and Gas Sales, net of royalties	4	2	14	11
Net income (loss)	(2,322)	(3,384)	(8,240)	(7,499)
Per share - basic	(0.10)	(0.15)	(0.36)	(0.33)
Per share - diluted	(0.10)	(0.15)	(0.36)	(0.33)
Production (Boepd)	1.4	1.7	1.5	1.5
Cash flow from operating activities	(309)	(2,010)	(1,013)	(4,220)
Per share - basic	(0.01)	(0.09)	(0.04)	(0.19)
Per share - diluted	(0.01)	(0.09)	(0.04)	(0.19)
Weighted Average Shares – Basic (2)	23,022	22,694	22,964	22,553
Weighted Average Shares – Diluted	23,022	22,694	22,964	22,553
Total assets	21	25	21	25
Total net working capital	(17,925)	(12,046)	(17,925)	(12,046)

(1) "Total net working capital" is calculated as current assets less current liabilities.
(2) Due to the anti-dilutive effect of the Corporation's net loss for the listed periods, the diluted number of shares is equal to the basic number of shares. Therefore, diluted per share amounts of the net loss and cash flow from operations are equivalent to basic per share amounts. On February 19, 2014, the Company's shareholders approved a one-for-ten consolidation of the Company's common shares and that consolidation is reflected retroactively in this table.

See Note 21 of the Consolidated Financial Statements for the years ended December 31, 2013 and 2012, where the Company's 40% joint arrangement in Aral Petroleum Capital LLP is fully disclosed and the table beneath.

Summary of Selected Quarterly Results ($000's - except sales volumes/prices) Presenting Caspian's Share of Aral's Operations

Period	1Q-12	2Q-12	3Q-12	4Q-12	1Q-13	2Q-13	3Q-13	4Q-13
Oil and gas sales – Boe/d	67	127	132	129	10	33	56	47
Oil and gas sales price - per Boe	90.05	86.49	92.94	84.70	43.81	67.11	64.63	46.77
Oil and gas revenues, net	546	997	1,128	1,001	38	204	334	298
Operating costs	314	805	657	692	248	787	1,249	(836)

Transportation costs	24	448	459	390	-	14	38	-
Operating netback	208	(256)	12	(81)	(210)	(597)	(953)	1,082

During the above calendar years, the East Zhagabulak field is shut-in concurrent with the expiration of the gas flaring permit on December 31 and production resumes once a renewed temporary gas flaring permit is issued for the residual of the ensuing year. Renewal of the flaring permit, due to the Kazakh regulations in place and the requirement for certain permits, is a time consuming process and generally takes about six months to complete. To resume production, permits for renewed flaring and environmental emissions must be granted. Each year, the temporary flaring permit expires at the close of the calendar year. Beyond 2013 significant capital expenditure are required to implement a gas utilization scheme that will alleviate the necessity of these annual temporary permits.

The Kazakh government is hesitant to permit the wasting of a natural resource. An exception to this situation is that newly drilled wells are permitted to flare gas for six months prior to having to abide by the stipulated rules.

Due to an electrical failure, the downhole pump in EZ #213 ceased working on June 6, 2012. Subsequently, while pulling the pump for remedial action, the cable broke resulting in a “fish” in the hole. On September 2, 2012, during the fishing operation, the fish (39 pieces of tubing, 354 metres of cable and the electronic submersible pump) were “lost” and dropped to 4,211 metres. At the close of 2013, remedial work has not been completed

During calendar 2012, five wells at East Zhagabulak were producing. EZ #301 operated in a stable free-flow mode with a production rate of between 302 – 373 Bopd, during the entire year.

Oil and gas revenue fluctuates over the eight quarters, reflecting changes in production volumes combined with great volatility in commodity selling prices.

During 2013, Aral’s inventory of oil was sold into the domestic marketplace resulting in a reduced unit sales price. The operating costs presented for the calendar quarters of 2013 include standby charges of approximately $602,000 incurred prior to the commencement of production, which occurred upon the renewal of the gas flaring permit, during August 2013. During the fourth quarter of 2013, Caspian reallocated foreign exchange charges that had been included in operating expenses as presented by APC (USD 1,332,000) which resulted in negative operating expenses for that quarter in the amount of $836,000. At the close of the third quarter EZ #301 was producing 410 Bopd (gross). EZ #213 was awaiting recommencement of the postponed “fishing” program to retrieve the equipment lost downhole. The sales volumes recorded in 1Q -13 relate to unsold 4Q-12 production. The sales volumes recorded in 2Q-13 relate to oil produced during the testing of EZ #306. Production average during 4Q 2013 was 706 Bopd and much of that was inventoried.

Quarterly financial information

The following table sets forth selected financial information of the Company for the eight most recently completed quarters following the retrospective application of IFRS 11 “Joint Arrangements”. IFRS 11 was adopted January 1, 2013 on a retrospective basis which requires the restatement of 2012 comparative financial information and the opening statement of financial position as of January 1, 2012. On February 19, 2014, the Company’s shareholders approved a one-for-ten consolidation of the Company’s common shares and that consolidation is reflected retroactively in this table.

(000's)	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Revenue	4	4	4	2
Expenses	919	403	485	632
Net earnings (loss)	(2,322)	(623)	(2,600)	(2,695)
Per share – basic/diluted ($/share)	(0.10)	(0.03)	(0.11)	(0.12)
Cash flow used by operating activities	309	436	164	104
Per share – basic/diluted ($/share)	0.01	0.02	0.01	0.00
Weighted avge. shares outstanding	22,964	23,022	22,998	22,812
Total assets	21	127	123	72
Total liabilities	23,602	21,386	20,759	18,369
Share capital	143,559	143,559	143,559	143,461

(000's)	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Revenue	2	2	3	4
Expenses	(269)	1,678	1,669	458
Net earnings (loss)	(3,384)	(1,070)	(2,278)	(767)
Per share – basic/diluted ($/share)	(0.15)	(0.05)	(0.10)	(0.03)
Cash flow used by operating activities	2,010	303	529	1,378
Per share – basic/diluted ($/share)	0.09	0.01	0.02	0.06
Weighted avge. shares outstanding	22,694	22,611	22,524	22,383
Total assets	25	46	351	881
Total liabilities	16,101	13,074	12,416	12,090
Share capital	143,358	143,523	143,411	143,195

General and administrative expenses ("G&A")

($000,s)	Three months ended Dec. 31 2013	Three months ended Dec. 31 2012	Twelve months ended Dec. 31 2013	Twelve months ended Dec. 31 2012
Total G&A expenses	918	(653)	2,056	2,004

During 3Q 2012, $1.27 million was recorded as a legal expense, due to the finalization of a legal settlement.
G&A for the final three months of fiscal 2013 was higher than the comparable period in fiscal 2012 as extraordinary legal fees associated with the 2014 Debentures conversion were incurred together with increased stipends to Directors and Officers. Further, in the fourth quarter of 2012, an audit adjustment for $1.1 million was entered which reversed charges pertaining to the Nabors Drilling legal settlement.

Finance expense

($000’s)	Three months ended Dec. 31 2013	Three months ended Dec. 31 2012	Twelve months ended Dec. 31 2013	Twelve months ended Dec. 31 2012
Interest expense	557	373	1,999	1,552
Net foreign exchange (gain) loss	850	1,998	1,345	570
Accretion of convertible debentures	-	1,268	2,679	3,963
Net finance expense	1,407	3,639	6,023	6,085

Under IFRS, finance costs include financing, foreign exchange and accretion costs. Interest was incurred on the Convertible Debentures, the advance from Asia Sixth and a Promissory note. Accretion of the discount on the Convertible Debentures, which matured June 2, 2013, was recorded during 4Q-12. Foreign exchange gains were realized as the denomination of the Company’s advance to Aral and Convertible Debentures are US dollars, which dollar fluctuates in value versus the Canadian dollar.

Derivative fair value adjustment

($000’s)	Three months ended Dec. 31 2013	Three months ended Dec. 31 2012	Twelve months ended Dec. 31 2013	Twelve months ended Dec. 31 2012

Derivative fair value adjustment	-	(16)	208	2,111

Pursuant to the pronouncements of IFRS, Caspian's convertible debentures constitute a financial liability with an embedded derivative (which is the conversion feature of this instrument). Revaluation of the derivative component of the Company's Convertible Debentures results in unrealized gains (losses) as the fair value of the conversion option has historically decreased due to the deteriorating market value per share of the Company's common shares.

Cash from operating activities and net loss

In the fourth quarter of fiscal 2013 the Corporation recorded a net loss of $2,322,000 compared to a net loss of $3,384,000 for the same period in fiscal 2012. In the twelve months of fiscal 2013 the Corporation recorded a net loss of $8,240,000 compared to net loss of $7,499,000 for the same period in fiscal 2012. On an earnings per share basis, the Corporation had a $0.10 per share loss for the three months ended December 31, 2013 which compares to the $0.15 per share loss over that same period in 2012. On an earnings per share basis, the Corporation had a $0.36 per share loss for the twelve months ended December 31, 2013 which compares to the $0.33 per share loss over that same period in 2012. For the fourth quarter of fiscal 2013, cash flow used in operating activities was $309,000 (an $1,701,000 decrease over the fourth quarter fiscal 2012), largely due to the Nabors Drilling legal settlement resolved during the fourth quarter of 2012. For the twelve months of fiscal 2013, cash flow used in operating activities was $1,013,000 (a $3,207,000 decrease over the twelve months fiscal 2012), largely due to changes in non-cash working capital and a legal settlement expense incurred in 2012.

Weighted common shares outstanding ($000's, except per share amounts)	Three months ended Dec. 31 2013	Three months ended Dec. 31 2012	Twelve months ended Dec. 31 2013	Twelve months ended Dec. 31 2012
Basic	23,022	22,694	22,964	22,553
Diluted	23,022	22,694	22,964	22,553
Income (loss) per share basic	($0.10)	($0.15)	($0.36)	($0.33)
Income (loss) per share diluted	($0.10)	($0.15)	($0.36)	($0.33)

Liquidity and capital resources

Caspian finances its operations through equity sources and loans until its shareholdings in Aral begin to pay dividends.
The Company reported a net loss of $8,240,000 and negative funds generated from operating activities of $1,013,000 for the twelve months ended December 31, 2013. The Company had a net working capital deficiency of $17,925,000 and a cumulative deficit equal to $185,647,000 at year end.

Components of the working capital figures are contained in the following table:

($000's)	Year ended December 31 2013	Year ended December 31 2012
Cash and cash equivalents	17	19
Accounts receivable	4	2
Convertible debentures	(15,949)	(11,011)
Promissory note	(47)	-
Derivative liability	-	(208)
Accounts payable and accrued liabilities	(1,950)	(848)
Total working capital (deficit)	(17,925)	(12,046)

Caspian Energy Inc. holds a 40 % joint arrangement in Aral Petroleum Capital LLP (Aral or APC), the operating entity in Kazakhstan, while Asia Sixth Energy Resources Limited has 60 % of Aral.

Caspian, which originally held a 50% joint arrangement in Aral, conveyed 10% ownership to Asia Sixth in return for Asia Sixth's undertaking to finance capital expenditures to the cumulative threshold of USD $80 million over the duration of the deal. Caspian also receives a $2 million loan, secured by production-oriented cash flow, plus access to a further two million on each of the first two anniversaries of the transaction (December 29, 2011). Loans have a maturity of ten years and bear interest at 10 % per year for the first five years and 18 % for the second 5 years. Repayments on this facility are restricted to and sourced from the production proceeds of Aral.

This transaction achieved several strategic milestones. It provided the funding necessary to develop the East Zhagabulak field, phase one of which envisages the immediate drilling of development wells. It provided the funding required for a sustained exploratory drilling campaign in the Greater Zhagabulak, Baktygaryn, and Urikhtau areas, among others. Finally, it s ensured that Caspian did not have to provide additional funds for the activity in the North Block in the near term.

On June 13, 2013, the Company announced the June 3, 2013 signing of a number of agreements whereby Aral expected to be able to immediately implement the testing of certain wells based on the advice of outside consultant Mr. Roger Nutt. Pursuant to the aagreements, additional financing has been committed to Aral Petroleum Capital LLP to cover operating expenses, as well as to Caspian to cover ongoing overhead and accounts payable. The financing will permit drilling which will allow Aral to meet its 2013/14 License drilling commitments in the North Block.

The agreements provide for the availability of a loan of US$20 million to Aral for the purpose of funding Aral's operations. It is intended that proceeds from this loan will, in part, be used to fund the work prescribed in the work program agreed with the Ministry of Oil and Gas in Kazakhstan. This work program envisages the drilling of a deep exploration well in the Baktygaryn and Aransay area. As well, one shallow well is planned to be drilled in Itassay.

The agreements amend the loan agreement between Caspian's wholly-owned subsidiary, Caspian Energy Ltd. (CEL), and Asia Sixth Energy Resources Limited to allow CEL to draw US$100,000 each month from July 2013 until November and to draw an additional US$1,400,000 as early as December 28, 2013. These draws were made. In return for raising the financing contemplated in the aagreements, CEL's partners in Aral, being Asia Sixth Energy Resources Limited (ASER) and its subsidiary Groenzee B.V., require CEL to transfer to them part of its joint arrangement interest in Aral resulting in CEL's interest in Aral reducing from 40% to 33.5%. To date, the conditions precedent described in Article 4 of the Sale and Purchase Agreement for a 6.5% Participating Interest in Aral Petroleum Capital LLC between Groenzee B.V. and Caspian Energy Ltd. dated June 3, 2013, have not been satisfied nor

waived. Further, the Company's wholly-owned subsidiary has guaranteed its ownership percentage of the advances made by ASER's subsidiary to Aral.

Nevertheless, despite the assurances described above, the Company's existing sources of financing, including income from the operations of Aral, were not sufficient to meet the Company's formal obligation to repay the Convertible Debentures, which matured on June 2, 2013.

On January 10, 2014, Caspian announced that it had reached agreement with the holders of its amended and restated secured convertible debentures to amend the debentures. The conversion price was amended to the price such that, if all outstanding debentures are converted, the common shares of the Corporation issued upon the conversion would represent eighty-two and one half percent (82.5%) of the issued and outstanding common shares. Following the conversion all debt owed to the holders was deemed paid.

In addition, the Company does not have the financial ability to enable Aral to repay its outstanding loans in the event that Asia Sixth fails to uphold its undertakings, with the result that Aral may not be able to continue operations. Given that the Company's joint arrangement in Aral represents the Company's most significant asset, the failure of Aral to continue operations would have a significant impact upon the Company.

The Company's operations continue to consume cash. As it has in the past, the Company will seek to rely on sources other than Aral, to provide any working capital requirements for the foreseeable future.

Caspian's business is capital intensive, requiring cash infusions on a regular basis as it seeks to explore and exploit, through Aral, its exploration licence in the Republic of Kazakhstan. Through Aral, the Company is actively discharging its exploration expenditure undertakings, and as a consequence, the demand for cash will not diminish in the short-run and cash flow is expected to continue to be negative for the foreseeable future.

The Company is not expected to be profitable during the ensuing twelve months and therefore must rely on securing additional funds from either the issuance of debt or equity financing for cash consideration.

The Company's use of cash may increase in the future in order to assure that Aral meet its exploration contract commitments. The Company will continue to review the prospects of raising additional debt and equity financing to support its operations at least until such time that its operations become self-sustaining. To enhance liquidity within Aral, the stakeholders of Aral (including Caspian) have also verbally agreed not to "call" any of the advances due to them by Aral. While the Company is using its best efforts to raise financing, there is no guarantee that it will be able to do so or that Asia Sixth will not enforce the loan due to it from Aral.

Under the terms of the Exploration Contract, Aral has an obligation to create a fund of 1% of the capital cost of exploration and deposit cash in a restricted bank account. The Company's share of this account balance at December 31, 2013 and December 31, 2012 was $483,000 and $8,000, respectively. This Liquidation Fund is intended to be used to finance the cost of restoring the licence area upon expiration of the Exploration Contract and the Production Contract.

See also "Contractual obligations".

Capitalization

	November 10, 2014
Common shares outstanding	134,434,108

Warrants pursuant to Convertible Debentures	202,416
Options	2,320,162
Share Entitlement Agreement	2,600,000
Total	139,556,686

(1) *The common share purchase warrants entitle the holder of the warrant to purchase one common share at any time up until expiry. Warrants have expiry dates ranging from October 2014 to April 2015. The common share purchase warrants vary in price from $0.57 to $1.41 with a weighted average price of $0.83.*

(2) *The Corporation has granted stock options to directors and employees of the Corporation. They have the option to acquire up to 2,320,162 common shares of the Corporation at an average exercise price of $1.424 per share. The options vest immediately and expire from June 2015 to January 2018.*

(3) *These shares are issuable to Roger Nutt, a petrophysicist, in return for services and advice in connection with the exploitation, development and completion of eight wells in the ROK. The shares are awarded only if 2,000 and 4,000 Bopd (per well) thresholds are exceeded. The number of common shares awarded per well for exceeding 2,000 Bopd is 62,500 shares and for exceeding 4,000 Bopd is 187,500 shares.*

Contractual obligations

In accordance with the shareholders' agreement in respect of Aral, Caspian is obligated to fund the work program of Aral pursuant to the Exploration Contract.

On January 14, 2013, Exploration License was extended for a further two years to December 2014. During the two year extension period, Aral is planning to perform Geological and Exploration operations on several prospective areas of the North block.

As at December 31, 2013, Aral had incurred USD 26.1 million of qualifying expenditures of the 2013 commitment of USD 11.0 million. Although the total qualifying expenditures exceed the 2013 commitment, certain categories of expenditure have not been satisfied. Subsequent to submission to the ROK – MOG, Aral has not received a notice of non-fulfilment. The 2014 proposed work program contains expenditures commitments totalling USD 13.4 million.

Beneath is a summary table outlining the categorical commitments:

Category	***Minimum Work Program***	***Spent to Date***	***Over(under)***
	(USD)	(USD)	(USD)
Geophysical operations	3,198,000	8,310,000	5,112,000
Drilling operations	5,442,000	9,464,000	4,022,000

Other geology	330,000	3,384,000	3,054,000
Design engineering	80,000		(80,000)
Research & Dev in Kz	48,000		(48,000)
Monitoring	21,000	63,000	42,000
Insurance	100,000	166,000	66,000
Petroleum operations	100,000		(100,000)
Liquidation fund	98,000	211,000	113,000
Training	98,000	384,000	286,000
Wage fund	400,000		(400,000)
Indirect expenses	400,000	2,191,000	1,791,000
Taxes	700,000	1,504,000	804,000
Facilities		148,000	148,000
Machines		256,000	256,000
	11,015,000	26,081,000	15,066,000

Non-fulfillment of commitments under the Work Program may result in punitive actions by the Government of the Republic of Kazakhstan, including suspending or revoking the Exploration Contract.

Aral received a four year extension for its Exploration Licence to December 2018, provided that certain additional commitments under the Contract are discharged. The approved Minimum Work Program for the Licence period contains a financial commitment for eligible expenditures equal to US $42,760,000 - to drill wells at Aransay, Baktygaryn, North-West Alibekmola, Zhagabulak and the North Mortuk areas.

Financial instruments and capital disclosures

Financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Due to the short term nature of the financial instruments, their carrying amounts equate to their fair value amounts.

The Corporation does not have sufficient resources to fund its day to day operations to the end of fiscal 2014. The Corporation anticipates additional financing will come in the form of equity and/or debt financing.

Subsequent to December 31, 2013, the Company:

- Executed an agreement for conversion of Debentures for which shareholder approval was received and pursuant to which the Debentures were converted to common shares of the Company, thereby reducing its debt burden and interest expense.
- Obtained short-term financing by way of a US$3.0 million secured convertible loan.
- Settled certain outstanding wages, consulting fees, vacation pay, termination pay, severance pay, incentive compensation, bonuses, commissions, overtime pay and any payments or claims that might be made under certain statutes in exchange for aggregate cash payments of $475,443 and

the issuance of 3,138,240 common shares.

- Entered into a share purchase agreement pursuant to which the Company will acquire the remaining 60% interest in Aral thereby increasing the Company's ownership of Aral to 100%.

Related party transactions

On April 1, 2013, the Company entered into a promissory note agreement with an officer of the Company in the principal amount of $41,127. The promissory note is unsecured, matures on December 31, 2013 and bears interest at 20% per annum. As at December 31, 2013, the $47,296 balance is comprised of $41,127 principal plus $6,169 of accrued interest. The balance of principal plus accrued interest was repaid in full in January 2014.

Off balance sheet arrangements

The Corporation has not entered into any off balance sheet arrangements.

Changes in Accounting Policies

On January 1, 2013, the Company adopted new standards for IFRS 10, "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement" as well as consequential amendments to IAS 28 "Investments in Associates and Joint Ventures".

IFRS 10 replaces the previous guidance on control and consolidation. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. As a result of the adoption of IFRS 10 effective January 1, 2013, and in accordance with the transitional provisions of IFRS 10, the Company re-assessed its control conclusions and determined that there were no changes in the consolidation status of its wholly-owned subsidiary.

The impact of the adoption of IFRS 11 is disclosed in Note 5 to the Consolidated Financial Statements.

IFRS 12 sets out the annual disclosure requirements for the Company's interests in subsidiaries, joint arrangements and associates. The adoption of IFRS 12 effective January 1, 2013, resulted in additional disclosures in the Company's consolidated financial statements for the year ended December 31, 2013.

IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. Adoption of this standard had no significant impact on the Company's financial statements other than the inclusion of fair value information disclosures for financial instruments in its consolidated financial statements as disclosed in Note 7 to the Consolidated Financial Statements.

The adoption of consequential amendments to IAS 28 had no impact on the Company's consolidated financial statements.

The adoption of IFRS 11 resulted in the deconsolidation of the Company's 40% proportionate share of Aral and the application of the equity method of accounting for the investment in Aral. Changes have been applied retrospectively in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", resulting in the restatement of prior period financial information.

Under IFRS 11, interests in joint arrangements are classified as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Company's considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and

circumstances.

Joint operations continue to be proportionately consolidated whereas joint ventures, such as the Company's interest in Aral, now require the application of the equity method of accounting. Under the equity method, the Company's share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated statement of financial position and individual revenues and expenses are replaced with earnings/losses from investment in joint ventures amount in the consolidated statement of loss.

The Company recognized the deemed cost of its investment in Aral at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Company, which were negative net assets. As a result, the Company assessed whether it has legal or constructive obligations in relation to the Aral's negative net assets and concluded that it does not have any such obligations. The Company did not recognise the corresponding liability for its share of Aral's negative net assets, rather it adjusted deficit as at January 1, 2012 and December 31, 2012 for its cumulative unrecognised share of losses of Aral of $8.5 and $22.5 million, respectively.

The effects of the change on the Company's consolidated statement of financial position as at January 1, 2012, and December 31, 2012, and on the Company's consolidated statement of loss and comprehensive loss and consolidated statement of cash flows for the year ended December 31, 2012 are summarized in Note 5 to the Consolidated Financial Statements.

Financial and operational risks

Prices, markets and marketing of crude oil and natural gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices. All of these factors could result in a material decrease in the Corporation's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. A sustained material decline in prices from historical average prices could negatively impact the Corporation's ability to refinance its Convertible Debentures and obtain other financing.

In addition to establishing markets for its oil and natural gas, the Corporation must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Corporation. The ability of the Corporation to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Corporation will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Corporation has limited direct experience in the marketing of oil and natural gas.

Interest rate risk

The Corporation is exposed to interest rate risk to the extent that changes in market interest rates impact the floating rate on borrowing and deposits. The Corporation has not entered into any interest rate swaps or financial contracts.

Business risks

An investment in the Corporation should be considered highly speculative due to the nature of the Corporation's involvement in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas reserves and its current stage of development. Oil and gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Corporation.
The Company reported a net loss of $8,240,000 and negative funds generated from operating activities of $1,013,000 for the twelve months ended December 30, 2013. The Company had a net working capital deficiency of $17,925,000 and a cumulative deficit equal to $185,647,000 at year end. See Note 1 to the Consolidated Financial Statements (Amended).

Exploration, development and production risks

Oil and natural gas exploration involves a high degree of risk, which evens a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by the Corporation will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of the Corporation will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Corporation will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Insurance

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities or other property and the environment or in personal injury. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks insurable.

Competition

The petroleum industry is competitive in all its phases. The Corporation competes with numerous other participants in the search for the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. The Corporation's competitors include oil companies which have greater financial resources, staff and facilities than those of the Corporation. The Corporation's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods of reliability of delivery.

Permits and licenses

The operations of the Corporation may require licenses and permits from various governmental authorities. There can be no assurance that the issuer will be able to obtain all necessary license and permits that may be required to carry out exploration and development at its projects.

Delays in business operations

In addition to the usual delays in payments by purchasers of oil and natural gas to the Corporation or to the operator, and the delays by operators in remitting payment to the Corporation, payments between these parties may be delayed due to restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connections of wells to a gathering system, adjustment for prior periods, or recovery by the operator of expenses incurred in the operation of the properties. Any of these delays could reduce the amount of cash flow available for the business of the Corporation in a given period and expose the Corporation to additional fourth party credit risks.

Seasonality

The level of activity in the oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, governmental departments may enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Corporation.

Income taxes

The Corporation will file all required income tax returns and believes that it will be in full compliance with the provisions of the *Income Tax Act* (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, such reassessment may have an impact on current and future taxes payable.

Third party credit risk

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers or its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations.

Changes in legislation

The return on an investment in securities of the Corporation is subject to changes in Canadian federal and provincial tax laws and government incentive programs and there can be no assurance that such laws or programs will not be changed in a manner that adversely affects the Corporation of the holding and disposing of the securities of the Corporation.

Reserve replacement

The Corporation's future oil and natural gas reserves, production and cash flows to be derived therefrom are highly dependent on the Corporation successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors that are beyond the control of the Corporation. The reserve and cash flow information represents estimates only. The reserves and estimated future net cash flow from the Corporation's oil and gas assets have been independently evaluated effective December 31, 2012 by McDaniel & Associates Consultants Ltd. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Corporation. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

Additional information concerning the oil, NGL and natural gas reserves of the Corporation is provided in the Corporation's Annual Information Form for the year ended December 31, 2012. The Annual Information Form is available for review on SEDAR.

Substantial capital requirements: liquidity

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration and development and production of oil and natural gas reserves in the future. If the Corporation's revenues or reserves decline, as a result of lower oil and natural gas prices or otherwise, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs to replace its reserves or to maintain its production. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Additional funding requirements

From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisitions, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Moreover, future activities may require the Corporation to alter its capitalization significantly, which may impact its financial condition.

Issuance of debt

From time to time the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Depending on the future exploration and development plans, the Corporation may require additional equity and/or debt financing which may not be available or if available, may not be available on favorable terms.

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Environmental risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and other laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of the applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and fourth parties and may require the Corporation to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Reliance on operators and key employees

To the extent that the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the Corporation's success depends in large measure on certain key executive personnel. The loss of the services of such key personnel could have a material adverse effect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretions, integrity and good faith of the management of the Corporation.

Application of critical accounting estimates

Changes in significant accounting policies used by the Corporation are disclosed in Note 5 to the December 31, 2013 consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in these judgments and estimates may have a material impact on the Corporation's financial results and condition. The Corporation's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts, that differ materially from current estimates.

The following assessment of critical accounting estimates is not meant to be exhaustive. The Corporation might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Oil and gas reserves

Under NI 51-101, "Proved" reserves are those reserves that can be estimated with a high degree of certainty to be recoverable (it is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves). In accordance with this definition, the level of certainty targeted by the reporting company should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. In the case of "Probable" reserves, which are less certain to be recovered than Proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proved plus Probable, the reporting company must believe that there is at least a 50 percent probability that quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable reserves.

Oil and gas reserves estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Corporation's plans. The reserve estimates are also used in determining the Corporation's borrowing base for its credit facilities and may impact the same upon revisions or changes to the reserves estimates. The effect of changes in reserves on the financial results and position of the Corporation is described under the heading "Accounting for Oil and Gas Activities".

Income tax accounting

The determination of the Corporation's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Accounting for oil and gas activities

Carrying value of property, plant and equipment

Development and production assets within property, plant and equipment are depreciated, depleted and amortized using the unit-of-production method based on estimated proved and probable reserves determined using estimated future prices and costs. There are a number of inherent uncertainties associated with estimating reserves. By their nature, these estimates of reserves, including the estimates of future prices and costs, and related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Exploration and evaluation assets

The application of the Corporation's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be

reasonably determined and when technical feasibility and commercial viability has been reached. Estimates and assumptions may change as new information becomes available.

Decommissioning liabilities

Decommissioning costs are incurred when certain of the Corporation's tangible long-lived assets are retired. Assumptions, based on current economic factors which Management believes are reasonable, have been made to estimate the future liability. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. The impact to net earnings over the remaining economic life of the assets could be significant due to the changes in cost estimates as new information becomes available. In addition, the Corporation determines the appropriate risk-free discount rate at the end of each period to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

Impairment of assets

The recoverable amounts of CGU's and individual assets have been determined as the higher of the CGU's or the asset's FVLCTS and its VIU. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates as well as future development and operating costs. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU's.

Share based payments

The Corporation uses the fair value method for valuing stock options and warrants. Under this method, as new options are granted, the fair value of these options will be expensed over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions including expected stock price volatility.

Legal, environmental remediation and other contingent matters

The Corporation is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Corporation's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.