

Caspian Energy Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)

March 31, 2018

Notice of Disclosure of No Auditor Review of Condensed Interim Financial Statements

The accompanying unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2018 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) accounting principles as issued by the IASB and are the responsibility of the Company’s management.

The Company’s independent auditors, MNP LLP, have not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(in thousands of Canadian dollars)

	March 31	December 31
	2018	2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	314	126
Trade receivables and other current assets (Note 5)	2,102	1,972
Inventory	76	93
	<u>2,492</u>	<u>2,191</u>
Non-current assets		
Restricted cash	23	23
VAT receivable	3,565	3,335
Property and equipment (Note 6)	6,096	5,805
Exploration and evaluation assets (Note 7)	31,160	29,147
	<u>43,336</u>	<u>40,501</u>
Liabilities		
Current liabilities		
Trade and other payables	29,672	27,977
Loans payable (Note 8)	334	327
	<u>30,006</u>	<u>28,304</u>
Non-current liabilities		
Loans payable (Note 8)	29,448	27,469
Decommissioning liability	1,193	1,116
Deferred tax liability	14,843	14,843
	<u>75,490</u>	<u>71,732</u>
Shareholders' deficit		
Share capital	183,035	183,035
Contributed surplus	18,507	18,507
Deficit	(235,845)	(235,200)
Accumulated other comprehensive income	2,149	2,427
	<u>(32,154)</u>	<u>(31,231)</u>
Total liabilities and shareholders' deficit	<u>43,336</u>	<u>40,501</u>

Reporting entity and going concern (Note 1)

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31	2018	2017
	\$	\$
Revenue		
Oil revenue, net	423	947
Expenses		
General and administrative	255	218
Operating expenses	386	592
Depletion and depreciation	105	446
	746	1,256
Operating loss before other items	(323)	(309)
Interest and accretion (Note 11)	(689)	(670)
Foreign exchange gain	367	922
Loss for the period	(645)	(57)
Foreign currency translation adjustments	(278)	283
Comprehensive loss	(923)	226
Loss per share (Note 9)	(0.00)	(0.00)

See accompanying notes to the condensed interim consolidated financial statements.

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficit (Unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31	2018	2017
	\$	\$
Share capital		
Balance, January 1 and March 31	183,035	183,035
Contributed surplus		
Balance, January 1 and March 31	18,507	18,507
Deficit		
Balance, January 1	(235,200)	(224,176)
Loss for the period	(645)	(57)
Balance, March 31	(235,845)	(224,233)
Accumulated other comprehensive income		
Balance, January 1	2,427	2,904
Exchange differences on translation of foreign operations	(278)	283
Balance, March 31	2,149	3,187
Total shareholders' deficit	(32,154)	(19,504)

See accompanying notes to the condensed interim consolidated financial statements.

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)

For the three months ended March 31	2018	2017
	\$	\$
Cash flow provided by (used in)		
Operating activities		
Loss for the period	(645)	(57)
Adjustments for:		
Depletion and depreciation (Note 6)	105	446
Interest and accretion (Note 11)	689	670
Foreign exchange	(2,137)	(2,415)
Changes non-cash working capital		
Trade and other receivables and other current assets	(129)	481
Inventory	23	(11)
Trade and other payables	1,694	1,437
Net cash used in operating activities	(400)	551
Financing activities		
Proceeds from loans payable (Note 8)	593	91
Net cash provided by financing activities	593	91
Investing activities		
Increase in restricted cash	–	(23)
Decrease in VAT receivable	–	(463)
Property and equipment expenditures (Note 6)	(5)	(5)
Exploration and evaluation asset expenditures (Note 7)	–	(9)
Net cash provided by investing activities	(5)	(500)
Change in cash and cash equivalents	188	142
Foreign exchange on cash held in foreign currencies	–	7
Cash and cash equivalents – January 1	126	85
Cash and cash equivalents – March 31	314	234

See accompanying notes to the condensed interim consolidated financial statements.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

1. Reporting entity and going concern

Caspian Energy Inc. (“Caspian” or the “Company”) is a publicly traded company on the NEX, a separate board of TSX Venture Exchange under the stock symbol CKZ.H. Caspian’s registered office is located at 2200, 885 West Georgia Street, Vancouver, British Columbia, Canada.

Caspian is engaged in the exploration for and development and production of oil and natural gas in the Republic of Kazakhstan (“ROK”) through its subsidiary, Aral Petroleum Capital LLP (“Aral”). Aral is owned 10% by the Company and 90% by the Company’s wholly-owned subsidiaries, Caspian Energy Canada Ltd. (“CECL”) and Groenzee B.V. (“Groenzee”).

Through its interest in Aral, the Company has the right to explore and develop certain oil and natural gas properties in Kazakhstan, known as the North Block (the “Exploration Contract”), a 1,466.41 square kilometre area located in the Aktyubinsk region in Kazakhstan (the “License Area”). The term of the Exploration Contract is until December 29, 2018 during which time Aral is committed to a minimum work program in the amount of USD 58.3 million. Aral also has a production contract (the “Production Contract”) with the Ministry of Energy (“ME”) of ROK for carrying out oil extraction activities in the East Zhagabulak field within the License Area. The term of the Production Contract is until July 28, 2035. See Note 26.

As at March 31, 2018, Sixth Energy Limited (“Sixth Energy”), the sole shareholder of ASER, owned and controlled approximately 59.9% of the Company's issued and outstanding shares. The majority shareholder of Sixth Energy is Mr. Wei Zhao.

Going concern

These unaudited condensed interim consolidated financial statements have been presented on a going concern basis. For the three months ended March 31, 2018, the Company reported a net loss of \$0.6 million and had negative cash flows from operating activities of \$0.4 million. As at March 31, 2018, the Company had a net working capital deficiency of \$27.5 million and a cumulative shareholders’ deficit of \$32.2 million.

The Company has an agreement with Sixth Energy whereby Sixth Energy will provide a secured loan facility of up to USD 61.5 million to Aral (the “Loan Facility”) (Note 8 (b)). The Loan Facility will be secured by share pledges over the entirety of the Company’s Aral interests in favour of the Lenders on a pro-rata basis and repayable on May 20, 2018 or some other later date agreed to by the parties.

The Company’s ability to continue as a going concern is in significant doubt and is dependent upon obtaining financing to fund exploration and development activities and general and administrative expenses and on Aral achieving profitable operating results from its Kazakhstan operations.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee in effect at January 1, 2018, including International Accounting Standard 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented (see Note 3 for impact of new accounting standards). These unaudited condensed interim consolidated financial statements should be read

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017.

The following entities have been consolidated within the Company's financial statements:

<u>Entity</u>	<u>Registered</u>	<u>Holding</u>
Caspian Energy Inc.	Canada	Parent
CECL	Canada	100%
Groenzee	Netherlands	100%
Aral	Kazakhstan	Owned 10% by CEI, 40% by CECL and 50% by Groenzee

Functional currency is the currency of the primary economic environment in which a company operates. The functional currency of the Company is Canadian dollars ("CAD"). The functional currency of the Company's subsidiaries are CAD for CECL, the United States dollar ("USD") for Groenzee and the Kazakhstani Tenge ("KZT") for Aral.

These unaudited condensed interim consolidated financial statements are presented in CAD.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 18, 2018.

3. New accounting standards

On January 1, 2018, the Company retrospectively adopted *IFRS 9 Financial Instruments* ("IFRS 9") which includes new requirements for the classification and measurement of financial assets, a new credit loss impairment model and new model to be used for hedge accounting for risk management contracts. The Company does not currently have any risk management contracts. The adoption of IFRS 9 did not have a material impact on the Company's financial statements and management applied the provision matrix practical expedient as part of the adoption of the standard. The additional disclosures required by IFRS 9 are detailed in Note 5.

On January 1, 2018, the Company adopted *IFRS 15 Revenue from Contracts with Customers* ("IFRS 15") using the retrospective method of adoption. The adoption of IFRS 15 did not have a material impact on the Company's unaudited condensed interim consolidated financial statements and as a result, the Company did not apply any practical expedients as part of the adoption of IFRS 15. The additional disclosures required by IFRS 15 are detailed in Note 10.

4. Cash and cash equivalents

	March 31	December 31
	2018	2017
Cash in CAD	\$ 22	\$ 7
Cash in USD	287	106
Cash in Pounds Sterling	1	1
Cash in KZT	4	12
	\$ 314	\$ 126

5. Trade receivables and other current assets

The Company's trade receivables and other current assets are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. The Company's maximum exposure to credit risk at March 31, 2018 is in respect of \$2,102,000 (December 31, 2017 – \$1,972,000) of trade receivables and other current assets.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

The Company's trade receivables and other current assets consist of:

	March 31 2018	December 31 2017
Compensation receivable from participants	\$ 1,336	\$ 1,251
Current portion of VAT receivable	615	604
Goods and services tax receivable	11	9
Prepaid taxes, insurance and other items	140	108
	\$ 2,102	\$ 1,972

The compensation receivable from participants relates to the Company's losses related to the indemnification of litigation settled in a prior year. The Company's former partners had a liability to reimburse the losses as a result of the indemnification. During 2013, the compensation was repaid by participants by transferring to the account of the current participant, ASER, and the funds will be transferred to the account of the Company by the end of 2018.

The Company considers its receivables to be aged as follows:

	March 31 2018	December 31 2017
Current	\$ 67	\$ 65
31 to 120 days past due, not considered impaired	62	25
Over 120 days past due, not considered impaired	1,973	1,882
	\$ 2,102	\$ 1,972

In determining the recoverability of trade receivables and other current assets, the Company considers any change in the credit quality of the balances from the date credit was initially granted up to the reporting date. Accordingly, the Company believes no allowance for credit losses is required.

6. Property and equipment

	Oil and natural gas property	Other tangible assets	Total
Cost			
Balance at December 31, 2017	\$ 11,317	\$ 553	\$ 11,870
Additions	–	5	5
Foreign exchange	782	38	820
Balance at March 31, 2018	\$ 12,099	\$ 596	\$ 12,695
Accumulated depletion and depreciation			
Balance at December 31, 2017	\$ (6,052)	\$ (13)	\$ (6,065)
Depletion and depreciation included in expense	(98)	(7)	(105)
Depletion and depreciation included in inventory	(6)	–	(6)
Foreign exchange	(422)	(1)	(423)
Balance at March 31, 2018	\$ (6,578)	\$ (21)	\$ (6,599)
Carrying amount			
December 31, 2017	\$ 5,265	\$ 540	\$ 5,805
March 31, 2018	\$ 5,521	\$ 575	\$ 6,096

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

7. Exploration and evaluation assets

Balance at December 31, 2017	\$	29,147
Additions		–
Foreign exchange		2,013
Balance at March 31, 2018		31,160

8. Loans payable

	March 31 2018	December 31 2017
Asia Dynamic (a)	\$ 12,033	\$ 11,366
Sixth Energy (b)	15,523	14,873
ASER (c)	1,261	1,167
Mr. Wei Zhao (d)	965	390
	29,782	27,796
Current portion of loans payable	(334)	(327)
	\$ 29,448	\$ 27,469

(a) AsiaDynamic loan

The Company has an unsecured USD 6 million loan facility with AsiaDynamic Energy Corporation (“Asia Dynamic”) pursuant to which USD 6 million in loans was advanced to Caspian. The amounts drawn under the facility bear interest at a rate of 10% per annum and are repayable on or before May 20, 2019.

As at March 31, 2018, the reported amount of the loan payable is comprised of the following:

Principal	\$ 8,304 (USD 6,000)
Effect of 2015 modification	(1,500) (USD 1,230)
Accretion	864 (USD 606)
Accrued interest	5,232 (USD 3,660)
Foreign exchange	(867)
Balance at March 31, 2018	\$ 12,033 (USD 9,036)

(b) Sixth Energy loan

Aral has a USD 10 million facility with Sixth Energy dated May 21, 2014 and amended August 20, 2014 (the “Interim Loan”), of which USD 9.1 million was drawn as at December 31, 2017 (2016 – USD 9.1 million). The Interim Loan bears interest at an annual rate of 10%. On the first draw-down under the USD 61.5 million Loan Facility (Note 1), the balance owing under the Interim Loan will be consolidated with the Loan Facility, resulting in Aral having access to up to USD 51.5 million, assuming the full draw-down of the Interim Loan. The Loan Facility will be secured by share pledges over the entirety of the Company’s Aral interests in favour of the Lenders on a pro-rata basis and repayable on May 20, 2018 or some other later date agreed to by the parties. As the Interim Loan will be consolidated with the Loan Facility, it has been classified as long-term.

As at March 31, 2018, the \$15,523,000 (December 31, 2017 – \$14,873,000) balance owing under the Interim Loan is comprised of \$11,704,000 (USD 9.1 million) of principal plus \$3,819,000 of accrued interest (December 31, 2017 – \$11,444,000 (USD 9.1 million) of principal plus \$3,429,000 of accrued interest).

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

(c) ASER loan

On May 25, 2015, the Company signed a USD 1 million facility agreement with ASER. The facility is unsecured, bears interest at 10% per annum and due on May 25, 2025 or such later date as agreed by the Company and ASER. During 2017, the Company drew USD 0.1 million under the facility (2016 – USD 0.6 million).

As at March 31, 2018, the \$1,261,000 (December 31, 2017 – \$1,167,000) balance owing under the facility is comprised of \$1,078,000 (USD 0.8 million) of principal plus \$183,000 of accrued interest (December 31, 2017 – \$1,014,000 (USD 0.8 million) of principal plus \$153,000 of accrued interest).

(d) Mr. Wei Zhao loan

As at March 31, 2018, the \$965,000 (December 31, 2017 – \$390,000) loan from Mr. Wei Zhao was comprised of \$631,000 (December 31, 2017 – \$63,000) owing under the USD 1 million unsecured loan facility obtained in September 2017 and \$334,000 (December 31, 2017 – \$327,000) for working capital purposes. Amounts drawn under the loan facility bear interest at 10% per annum and are due on September 1, 2027. Amounts received from working capital purposes are unsecured and non-interest bearing with no fixed terms of repayment and are classified as current.

Balance at December 31, 2017	\$	390
Advances under USD 1 million unsecured loan facility		556
Accrued interest		6
Foreign exchange		13
		<hr/>
		965
Current portion		(334)
		<hr/>
	\$	631

9. Per share amounts

For the three months ended March 31	2018	2017
Loss for the period	\$ (645)	\$ (57)
Weighted average number of shares (in thousands) – basic:		
Issued common shares at January 1	463,658	463,658
Net (loss) income per share – basic and diluted	\$ (0.00)	\$ (0.00)

10. Revenue

According to the Production Contract, the Company is obliged to sell a minimum of 20% of produced crude oil to the domestic market. During the three months ended March 31, 2018 and 2017, the Company had no export sales and all produced crude oil was sold to the domestic market, representing \$422,000 of revenues for the three months ended March 31, 2018 (three months ended March 31, 2017 – \$946,000). The transaction price for oil sold under the Production Contract is determined by the local market and includes the effect of price adjustments for quality, location or other factors.

The majority of the Company's revenue was generated in Kazakhstan and the production was sold in Kazakhstan to one purchaser during the three months ended March 31, 2018 and 2017, representing 100% of oil revenue earned in Kazakhstan for the three months ended March 31, 2018 and 2017. Oil is sold on a prepayment basis therefore there are no related amounts in accounts receivable at March 31, 2018 or December 31, 2017.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

The following table represents the Company's oil revenue disaggregated by revenue source:

For the three months ended March 31		2018		2017
Oil revenue earned in Kazakhstan	\$	422	\$	946
Minor oil revenue earned in Canada		1		1
	\$	423	\$	947

11. Related party transactions

The Company conducts business with the following related parties:

Company	Relationship as at December 31, 2017
Sixth Energy	Owned and controls approximately 59.9% of the Company's issued and outstanding shares
ASER	Wholly-owned subsidiary of Sixth Energy
Asia Dynamic	Controlled by the majority shareholder of Sixth Energy
Mr. Wei Zhao	Majority shareholder of Sixth Energy

Amounts due to related parties are disclosed in Note 8.

The following related party amounts have been recognized in the consolidated statements of loss and comprehensive loss:

For the three months ended March 31		2018		2017
Interest and accretion on loans payable				
Sixth Energy	\$	281	\$	281
ASER		26		25
Asia Dynamic		376		364
Mr. Wei Zhao		6		–
	\$	689	\$	670

12. Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Foreign exchange rates to Canadian dollars for the noted dates and periods are as follows:

	Closing rate		Average rate	
	March 31	December 31	Three months ended March 31	
	2018	2017	2018	2017
KZT	0.0040	0.0038	0.0039	0.0041
USD	1.2894	1.2579	1.2647	1.3238

The following tables provide information on the foreign currency denominated financial instruments held by the Company:

As at March 31, 2018	Balance denominated in		Total CAD equivalents
	KZT	USD	
Cash and cash equivalents	\$ 892	\$ 222	\$ 291
Trade receivables and other current assets	\$ 505,061	\$ 22	\$ 2,069
Trade and other payables	\$ (7,310,933)	\$ (67)	\$ (29,627)
Loans payable	\$ –	\$ (23,098)	\$ (29,782)

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

As at December 31, 2017	Balance denominated in		Total CAD equivalents
	KZT	USD	
Cash and cash equivalents	\$ 3,211	\$ 83	\$ 117
Trade receivables and other current assets	\$ 498,115	\$ –	\$ 1,883
Trade and other payables	\$ (7,331,013)	\$ (127)	\$ (27,869)
Loans payable	\$ –	\$ (22,097)	\$ (27,796)

The following represents the estimated impact on net loss of a 25% change in the closing rate of the KZT and a 10% change in the closing rate of the USD as at March 31, 2018 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

KZT	\$ 5,500
USD	2,955
	<hr/>
	\$ 8,455

On August 20, 2015, the National Bank of Kazakhstan switched from a policy of bank-controlled foreign exchange rates to a policy of market-driven foreign exchange rates. Since August 20, 2015, the KZT has devalued by approximately 48% as of March 31, 2018 (58% as of December 31, 2017). Aral's revenues and trade receivables and other current assets as well as the majority of Aral's expenses and trade and other payables are denominated in KZT, all of which devalued accordingly.

13. Segmented information

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify Company's reportable segments. A geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The Company has two reportable segments which are as follows:

- Kazakhstan, which includes the oil and natural gas industry; and
- Other, which includes corporate assets and the operations in the Canadian and Netherlands entities. None of these individual segments meet the quantitative thresholds for determining reportable segments.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2018

(Unaudited)

(All tabular amounts are in thousands of Canadian dollars except as otherwise indicated)

	March 31, 2018			December 31, 2017		
	Kazakhstan	Other	Total	Kazakhstan	Other	Total
Property and equipment	\$ 6,096	-	6,096	\$ 5,805	-	5,805
Exploration and evaluation assets	\$ 31,160	-	31,160	\$ 29,147	-	29,147
Other assets	\$ 5,709	371	6,080	\$ 5,440	109	5,549
Total liabilities	\$ 49,202	26,288	75,490	\$ 46,635	25,097	71,732
Capital expenditures	\$ 5	-	5	\$ 173	-	173

	Three months ended March 31, 2018			Three months ended March 31, 2017		
	Kazakhstan	Other	Total	Kazakhstan	Other	Total
Revenue	\$ 422	1	423	\$ 946	1	947
General and administrative	97	158	255	592	-	592
Operating expenses	386	-	386	142	76	218
Depletion and depreciation	105	-	105	446	-	446
Finance expense	281	408	689	281	389	670
Other items	(702)	335	(367)	(858)	(64)	(922)
Segment (loss) income	\$ 255	(900)	(645)	\$ 343	(400)	(57)