

Caspian Energy Inc.

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

September 30, 2017

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 and nine months ended September 30, 2017 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)

As at	September 30 2017 \$	December 31 2016 \$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	15	85
Trade receivables and other current assets (Note 5)	1,751	1,970
Inventory	88	86
	<u>1,854</u>	<u>2,141</u>
Non-current assets		
Restricted cash	23	–
VAT receivable	3,357	3,883
Property and equipment (Note 6)	10,403	12,425
Exploration and evaluation assets (Note 7)	28,176	30,936
	<u>43,813</u>	<u>49,385</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	26,577	29,481
Non-current liabilities		
Loans payable (Note 8)	26,554	26,320
Decommissioning liability	984	1,081
Deferred tax liability	12,233	12,233
	<u>66,348</u>	<u>69,115</u>
Total liabilities		
Shareholders' deficit		
Share capital	183,035	183,035
Contributed surplus	18,507	18,507
Deficit	(225,700)	(224,176)
Accumulated other comprehensive income	1,623	2,904
	<u>(22,535)</u>	<u>(19,730)</u>
Total shareholders' deficit		
Total liabilities and shareholders' deficit		
	<u>43,813</u>	<u>49,385</u>

Reporting entity and going concern (Note 1)

Caspian Energy Inc.

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

(in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue				
Oil and natural gas revenue, net	432	2,134	2,276	2,931
Expenses				
Operating costs	442	790	1,574	1,524
General and administrative	166	370	691	883
Depletion and depreciation	206	40	1,067	108
	814	1,200	3,332	2,515
Operating income (loss) before other items	(382)	934	(1,056)	416
Gain on disposal of property and equipment (Note 6)	–	–	34	–
Interest and accretion on loans payable	(665)	(737)	(2,053)	(1,972)
Foreign exchange gain (loss)	1,458	333	1,587	1,036
	411	530	(1,488)	(520)
Income (loss) before tax				
Income tax	–	–	(36)	–
	411	530	(1,524)	(520)
Net income (loss)				
Foreign currency translation adjustments	(2,088)	(426)	(1,281)	2
	(1,677)	104	(2,805)	(518)
Comprehensive income (loss)				
Net income (loss) per share (Note 11)	0.00	0.00	(0.00)	(0.00)

Caspian Energy Inc.

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

(in thousands of Canadian dollars)

For the nine months ended September 30	2017	2016
	\$	\$
Share capital		
Balance, January 1 and September 30	183,035	183,035
Contributed surplus		
Balance, January 1 and September 30	18,507	18,507
Deficit		
Balance, January 1	(224,176)	(227,092)
Net loss for the period	(1,524)	(520)
Balance, September 30	(225,700)	(227,612)
Accumulated other comprehensive income		
Balance, January 1	2,904	2,853
Exchange differences on translation of foreign operations	(1,281)	2
Balance, September 30	1,623	2,855
Total shareholders' deficit	(22,535)	(23,215)

See accompanying notes to the consolidated financial statements.

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

(in thousands of Canadian dollars)

For the nine months ended September 30	2017	2016
	\$	\$
Cash flow provided by (used in)		
Operating activities		
Net loss for the period	(1,524)	(520)
Adjustments for:		
Depletion and depreciation	1,067	108
Gain on disposition of property and equipment	(34)	–
Interest and accretion on loans payable	2,053	1,972
Foreign exchange	780	(108)
Changes non-cash working capital		
Trade and other receivables and other current assets	219	50
Inventory	8	10
Trade and other payables	(2,856)	(2,246)
Net cash used in operating activities	(287)	(734)
Financing activities		
Proceeds from loans payable (Note 8)	91	1,554
Net cash provided by financing activities	91	1,554
Investing activities		
Increase in restricted cash	(25)	36
Decrease in VAT receivable	199	1
Property and equipment expenditures (Note 6)	(68)	(9)
Property and equipment proceeds (Note 6)	38	–
Exploration and evaluation asset expenditures (Note 7)	(18)	(115)
Net cash provided by investing activities	126	(87)
Change in cash and cash equivalents	(70)	733
Foreign exchange on cash held in foreign currencies	–	6
Cash and cash equivalents – January 1	85	222
Cash and cash equivalents – September 30	15	961

See accompanying notes to the consolidated financial statements.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2017

(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.

As at September 30, 2017, Sixth Energy Limited (“Sixth Energy”), the sole shareholder of ASER, owned and controlled approximately 59.9% of the Company’s issued and outstanding shares.

Going concern

These consolidated financial statements have been presented on a going concern basis. For the nine months ended September 30, 2017, the Company reported a net loss of \$1.5 million and had negative cash flows from operating activities of \$0.3 million. As at September 30, 2017, the Company had a net working capital deficiency of \$24.7 million and a cumulative deficit of \$225.7 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

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented (see Note 3). These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2016.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

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

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 currencies of the Company's subsidiaries are: CAD for CECL, the United States dollar ("USD") for Groenzee and the Kazakhstani Tenge ("KZT") for Aral.

These consolidated financial statements are presented in CAD.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 16, 2017.

3. Changes to accounting standards

On January 1, 2017, the Company adopted amendments to *IAS Statement of Cash Flows*. The adoption of these amendments had no impact on the amounts recorded in the condensed interim consolidated financial statements for the three and nine months ended September 30, 2017.

4. Cash and cash equivalents

	September 30	December 31
	2017	2016
Cash in CAD	\$ 5	\$ 6
Cash in USD	4	43
Cash in Pounds Sterling	1	1
Cash in KZT	5	35
	\$ 15	\$ 85

5. Trade accounts receivable and other current assets

	September 30	December 31
	2017	2016
Compensation receivable from participants	\$ 1,211	\$ 1,331
Current portion of VAT receivable	495	543
Goods and services tax receivable	4	5
Prepaid taxes, insurance and other items	41	91
	\$ 1,751	\$ 1,970

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 2017.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

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

The Company considers its receivables to be aged as follows:

	September 30 2017	December 31 2016
Current	\$ 16	\$ 20
31 to 120 days past due	18	75
Over 120 days past due	1,717	1,875
	\$ 1,751	\$ 1,970

In determining the recoverability of trade accounts receivable 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 is required.

6. Property and equipment

	Oil and natural gas property	Other tangible assets	Total
Cost			
Balance at December 31, 2016	\$ 12,037	\$ 598	\$ 12,635
Additions	–	68	68
Disposition	–	(55)	(55)
Foreign exchange	(1,080)	(55)	(1,135)
Balance at September 30, 2017	\$ 10,957	\$ 556	\$ 11,513
Accumulated depletion and depreciation			
Balance at December 31, 2016	\$ (156)	\$ (54)	\$ (210)
Depletion and depreciation included in expense	(1,065)	(2)	(1,067)
Depletion and depreciation included in inventory	(10)	–	(10)
Disposition	–	51	51
Foreign exchange	127	(1)	126
Balance at September 30, 2017	\$ (1,104)	\$ (6)	\$ (1,110)
Carrying amount			
December 31, 2016	\$ 11,881	\$ 544	\$ 12,425
September 30, 2017	\$ 9,853	\$ 550	\$ 10,403

During the nine months ended September 30, 2017, the Company disposed of property and equipment with a net book value of \$4,000 for proceeds of \$38,000 and recognized a \$34,000 gain on disposition of property and equipment in the condensed interim consolidated statement of loss and comprehensive loss.

7. Exploration and evaluation assets

Balance at December 31, 2016	\$ 30,936
Additions	18
Foreign exchange	(2,778)
Balance at September 30, 2017	28,176

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For the three and nine months ended September 30, 2017

(Unaudited)

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

8. Loans payable

	September 30 2017	December 31 2016
Asia Dynamic (a)	\$ 10,918	\$ 10,605
Sixth Energy (b)	14,505	14,671
ASER (c)	1,131	1,044
	\$ 26,554	\$ 26,320

(a) Asia Dynamic loan

The Company had a facility agreement with ASER pursuant to which ASER advanced USD 6 million in loans to Caspian. The amounts drawn under the facility bore interest at a rate of 10% per annum until December 28, 2016 and 18% per annum, compounded annually, thereafter until November 1, 2020. In May 2015, ASER assigned the loan payable to Asia Dynamic Energy Corporation (“Asia Dynamic”), and prior to such assignment, ASER also agreed to amend the terms of the loan with more favourable terms to the Company by: (a) fixing the interest rate at 10% per annum; (b) amending the repayment date of the loan to four years from the closing of the Acquisition, May 20, 2019 and (c) discharging all security granted by the Company to ASER in respect of the loan.

The reported amount of the loan payable is comprised of the following:

	September 30 2017	December 31 2016
Principal	\$ 8,304 (USD 6,000)	\$ 8,304 (USD 6,000)
Effect of May 2015 modification	(1,500) (USD 1,230)	(1,500) (USD 1,230)
Accretion	715 (USD 547)	485 (USD 371)
Accrued interest	4,650 (USD 3,438)	3,791 (USD 2,781)
Foreign exchange	(1,251)	(475)
	\$ 10,918 (USD 8,755)	\$ 10,605 (USD 7,922)

(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 September 30, 2017 (December 31, 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 September 30, 2017, the \$14,505,000 (December 31, 2016 – \$14,671,000) balance owing under the Interim Loan is comprised of \$11,383,000 (USD 9.1 million) of principal plus \$3,122,000 of accrued interest (December 31, 2016 – \$12,224,000 (USD 9.1 million) of principal plus \$2,447,000 of accrued interest).

(c) ASER loan

The Company has a USD 1 million facility agreement with ASER. The facility is unsecured, bears interest at an annual rate of 10% per annum and due on May 25, 2025 or such later date as agreed by the Company and ASER. During the nine months ended September 30, 2017, the Company drew \$91,000 (USD 0.07 million) on the facility.

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As at September 30, 2017, the \$1,131,000 (December 31, 2016 – \$1,044,000) balance owing under the facility is comprised of \$1,005,000 (USD 0.8 million) of principal plus \$126,000 of accrued interest (December 31, 2016 – \$988,000 (USD 0.7 million) of principal plus \$56,000 of accrued interest).

9. Stock options

As at December 31, 2016, the Company had 150,000 stock options outstanding and exercisable, all of which expired in January 2017. As at September 30, 2017, there were no stock options outstanding or exercisable.

10. Consideration warrants

As at December 31, 2016, the Company had 225,000 consideration warrants outstanding, all of which expired in January 2017. As at September 30, 2017, there were no consideration warrants outstanding.

11. Per share amounts

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Net income (loss) for the period	\$ 411	\$ 530	\$ (1,524)	\$ (520)
Weighted average number of shares (in thousands) – basic:				
Issued common shares at January 1	463,658	463,658	463,658	463,658
Effect of shares issued during the period	–	–	–	–
	463,658	463,658	463,658	463,658
Net income (loss) per share – basic and diluted	\$ 0.00	\$ 0.00	\$ (0.00)	\$ (0.00)

12. Related party transactions

The Company conducts business with the following related parties:

Company	Relationship as at September 30, 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

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 nine months ended September 30	2017	2016
Interest and accretion on loans payable		
Sixth Energy	\$ 886	\$ 925
ASER	78	29
Asia Dynamic	1,089	1,009
	<u>\$ 2,053</u>	<u>\$ 1,963</u>

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(Unaudited)

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

13. 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 as at		Average rate	
	September 30 2017	December 31 2016	Nine months ended September 30 2017	2016
KZT	0.0037	0.0040	0.0040	0.0039
USD	1.2470	1.3427	1.3073	1.3297

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

As at September 30, 2017	Balance denominated in		Total CAD equivalents
	KZT	USD	
Cash and cash equivalents	1,138	4	10
Trade receivables and other current assets	473,529	–	1,735
Trade and other payables	(7,214,010)	(86)	(26,542)
Loans payable	–	(21,294)	(26,554)

As at December 31, 2016	Balance denominated in		Total CAD equivalents
	KZT	USD	
Cash and cash equivalents	8,689	32	78
Trade receivables and other current assets	485,397	–	1,954
Trade and other payables	(7,275,456)	(77)	(29,391)
Loans payable	–	(19,602)	(26,320)

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 September 30, 2017 on foreign denominated financial instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

KZT	4,939
USD	2,666
	<u>7,605</u>

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. As a result, the KZT devalued by a total of 63% as of September 30, 2017 (48% as of December 31, 2016). Aral's revenues and trade receivables and other current assets as well as the majority of Aral's expenses and accounts payable are denominated in KZT, all of which devalued accordingly.

Caspian Energy Inc.

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(Unaudited)

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

14. 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.

	September 30, 2017			December 31, 2016		
	Kazakhstan	Other	Total	Kazakhstan	Other	Total
Property and equipment	\$ 10,403	-	10,403	\$ 12,425	-	12,425
Exploration and evaluation assets	\$ 28,176	-	28,176	\$ 30,936	-	30,936
Other assets	\$ 5,208	26	5,234	\$ 5,983	41	6,024
Total liabilities	\$ 41,924	24,424	66,348	\$ 52,411	16,704	69,115
Capital expenditures	\$ 86	-	86	\$ 135	-	135

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Kazakhstan	Other	Total	Kazakhstan	Other	Total
Revenue	\$ 431	1	432	\$ 2,133	1	2,134
Operating costs	442	-	442	789	1	790
General and administrative	122	44	166	313	57	370
Depletion and depreciation	206	-	206	40	-	40
Finance expense	288	377	665	375	362	737
Other items	(1,001)	(457)	(1,458)	(560)	227	(333)
Tax expense	-	-	-	-	-	-
Segment income (loss)	\$ 374	37	411	\$ 1,176	(646)	530

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Kazakhstan	Other	Total	Kazakhstan	Other	Total
Revenue	\$ 2,273	3	2,276	\$ 2,929	2	2,931
Operating costs (recovery)	1,573	1	1,574	1,523	1	1,524
General and administrative	469	222	691	662	221	883
Depletion and depreciation	1,067	-	1,067	108	-	108
Finance expense	886	1,167	2,053	925	1,047	1,972
Other items	(769)	(852)	(1,621)	(604)	(432)	(1,036)
Tax expense	-	36	36	-	-	-
Segment income (loss)	\$ (953)	(571)	(1,524)	\$ 315	(835)	(520)