

# **Caspian Energy Inc.**

Consolidated Financial Statements  
**December 31, 2015 and 2014**

## **Management's Responsibility**

To the Shareholders of Caspian Energy Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that the transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Audit Committee and management to discuss their audit findings.

June 2, 2016

(signed) "*Yelena Teslenko*"  
Yelena Teslenko, Chief Financial Officer

## Independent Auditor's Report

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To the Shareholders of Caspian Energy Inc.

We have audited the accompanying consolidated financial statements of Caspian Energy Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Caspian Energy Inc. as at December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter – Going Concern*

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Caspian Energy Inc.'s ability to continue as a going concern.

Calgary, Alberta  
June 2, 2016

*MNP* LLP  
Chartered Professional Accountants



# Caspian Energy Inc.

## Consolidated Statements of Financial Position As at December 31

(in thousands of Canadian dollars)

	2015	2014
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 8)	222	59
Trade receivables and other current assets (Note 9)	1,443	19
Inventory	59	–
	<u>1,724</u>	<u>78</u>
<b>Non-current assets</b>		
Restricted cash (Note 10)	38	–
VAT receivable (Note 11)	4,819	–
Property and equipment (Note 12)	540	–
Exploration and evaluation assets (Note 13)	31,106	–
	<u>38,227</u>	<u>78</u>
<b>Total assets</b>		
	<u>38,227</u>	<u>78</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables (Note 14)	32,260	370
Loans payable (Note 15)	980	–
Convertible loans (Note 16)	–	2,680
Derivative liability (Note 16)	–	677
	<u>33,240</u>	<u>3,727</u>
<b>Non-current liabilities</b>		
Loans payable (Note 15)	21,873	8,436
Decommissioning liability (Note 18)	949	–
Deferred tax liability (Note 19)	4,862	–
	<u>60,924</u>	<u>12,163</u>
<b>Total liabilities</b>		
	<u>60,924</u>	<u>12,163</u>
<b>Shareholders' deficit</b>		
Share capital (Note 20)	183,035	159,903
Warrants (Note 21)	–	64
Contributed surplus	18,507	18,443
Deficit	(227,092)	(190,495)
Accumulated other comprehensive income	2,853	–
	<u>(22,697)</u>	<u>(12,085)</u>
<b>Total shareholders' deficit</b>		
	<u>(22,697)</u>	<u>(12,085)</u>
<b>Total liabilities and shareholders' deficit</b>		
	<u>38,227</u>	<u>78</u>

Reporting entity and going concern (Note 1)

Subsequent events (Note 34)

### Approved by the Board of Directors

(signed) “*Frank Ingriselli*” Director

(signed) “*Michael Nobbs*” Director

# Caspian Energy Inc.

## Consolidated Statements of Loss and Comprehensive Loss For the years ended December 31

(in thousands of Canadian dollars)

	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Revenue</b>		
Oil and natural gas revenue, net	980	10
<b>Expenses</b>		
General and administrative	1,316	1,784
Transaction costs (Note 7)	143	1,135
Operating expenses	1,213	8
Depletion and depreciation	245	–
	2,917	2,927
<b>Operating loss before other items</b>	(1,937)	(2,917)
Gain on settlement of trade and other payables (Note 14)	–	682
Gain on modification of loans payable (Note 15)	1,500	–
Derivative fair value adjustment (Notes 16 and 17)	864	(56)
Gain on conversion of convertible debentures (Note 17)	–	486
Finance expense, net (Note 25)	(2,024)	(1,736)
Foreign exchange loss	(8,525)	(1,307)
<b>Loss before taxes</b>	(10,122)	(4,848)
Tax expense (Note 19)	(4,908)	–
<b>Net loss</b>	(15,030)	(4,848)
<b>Foreign currency translation adjustments</b>	2,853	–
<b>Comprehensive loss</b>	(12,177)	(4,848)
<b>Loss per share</b> (Note 24)	(0.04)	(0.04)

# Caspian Energy Inc.

## Consolidated Statements of Changes in Shareholders' Deficit For the years ended December 31

(in thousands of Canadian dollars)

	2015	2014
	\$	\$
<b>Share capital</b>		
Balance, January 1	159,903	143,559
Issuance of shares, net of issue costs (Notes 7 and 20)	23,132	16,156
Settlement of trade and other payables	–	188
Balance, December 31	183,035	159,903
<b>Warrants</b>		
Balance, January 1	64	247
Expiry of warrants (Note 21)	(64)	(183)
Balance, December 31	–	64
<b>Contributed surplus</b>		
Balance, January 1	18,443	18,260
Expiry of warrants (Note 21)	64	183
Balance, December 31	18,507	18,443
<b>Deficit</b>		
Balance, January 1	(190,495)	(185,647)
Net loss	(15,030)	(4,848)
Common control transaction (Note 7)	(21,567)	–
Balance, December 31	(227,092)	(190,495)
<b>Accumulated other comprehensive loss</b>		
Balance, January 1	–	–
Exchange differences on translation of foreign operations	2,853	–
Balance, December 31	2,853	–
<b>Total shareholders' deficit</b>	<b>(22,697)</b>	<b>(12,085)</b>

See accompanying notes to the consolidated financial statements.

# Caspian Energy Inc.

## Consolidated Statements of Cash Flows For the years ended December 31

(in thousands of Canadian dollars)

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flow provided by (used in)</b>		
<b>Operating activities</b>		
Loss and comprehensive loss	(15,030)	(4,848)
Adjustments for:		
Share-based compensation	–	–
Depletion and depreciation	245	–
Finance expense	2,021	1,736
Gain on modification of loans payable	(1,500)	–
Gain on settlement of trade and other payables	–	(486)
Derivative fair value adjustment	(864)	56
Gain on conversion of convertible debenture	–	(682)
Foreign exchange	26,916	1,260
Deferred tax expense	4,862	–
Changes non-cash working capital (Note 28)	(19,717)	(725)
<b>Net cash used in operating activities</b>	<b>(3,067)</b>	<b>(3,689)</b>
<b>Financing activities</b>		
Proceeds from loan payable	2,717	1,424
Proceeds from convertible loans	–	2,446
Repayment of promissory note	–	(47)
Share issue costs	–	(92)
<b>Net cash provided by financing activities</b>	<b>2,717</b>	<b>3,731</b>
<b>Investing activities</b>		
Cash and cash equivalents acquired	71	–
Decrease in restricted cash	536	–
Decrease in VAT receivable	70	–
Property and equipment expenditures	(10)	–
Exploration and evaluation asset expenditures	(119)	–
<b>Net cash provided by investing activities</b>	<b>548</b>	<b>–</b>
<b>Change in cash and cash equivalents</b>	<b>198</b>	<b>42</b>
Foreign exchange on cash held in foreign currencies	(35)	–
<b>Cash and cash equivalents – January 1</b>	<b>59</b>	<b>17</b>
<b>Cash and cash equivalents – December 31</b>	<b>222</b>	<b>59</b>

See accompanying notes to the consolidated financial statements.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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#### 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 is engaged in the exploration for and development and production of oil and natural gas in the Republic of Kazakhstan (“ROK”). Its primary operating activities are carried out through its wholly-owned subsidiary, Caspian Energy Canada Ltd. (“CECL”). Caspian’s registered office is located at 2200, 885 West Georgia Street, Vancouver, British Columbia, Canada.

On May 20, 2015, the Company completed an acquisition (the “Acquisition”) whereby Caspian acquired all the remaining interests in Aral Petroleum Capital LLP (“Aral”) not already owned by the Company, by the way of a share purchase agreement (the “Share Purchase Agreement”) made among Caspian, its wholly-owned subsidiary CECL, Asia Sixth Energy Resources Limited (“ASER”), Groenzee B.V. (“Groenzee”), and four other parties (the “Investors”). See Note 7.

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 31.

As at December 31, 2015, Sixth Energy Limited (“Sixth Energy”), the sole shareholder of ASER, owned and controlled approximately 33.4% of the Company’s issued and outstanding shares. As at the approval date of these consolidated financial statements, Sixth Energy owned and controlled approximately 59.9% of the Company’s issued and outstanding shares (Note 34(c)).

#### Going concern

These consolidated financial statements have been presented on a going concern basis. For the year ended December 31, 2015, the Company reported a loss of \$15 million and used funds for operating activities of \$3.1 million. As at December 31, 2015, the Company had a net working capital deficiency of \$31.5 million and a cumulative deficit of \$227.1 million.

The Share Purchase Agreement contains a condition precedent in favour of Caspian that Sixth Energy and Meridian International Capital Fund (“Meridian”) (collectively “the Lenders”) will on closing provide a secured loan facility of up to USD 61.5 million to Aral (the “Loan Facility”) (Note 15 (b) and Note 34 (c)). 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.

On November 6, 2015, Aral made a formal application for protection from its trade creditors under the Law of the Republic of Kazakhstan *On Rehabilitation and Bankruptcy* through the implementation of rehabilitation procedures (the “Rehabilitation Procedures”). The initial application for protection from its trade creditors was denied by the courts in December 2015 and Aral’s subsequent appeal was denied in March 2016. Aral is in the process of making a second application. If Aral is able to successfully negotiate the Rehabilitation Procedures with its creditors and obtain the requisite court approval, trade creditors and others will be prevented from commencing litigation against Aral for payment of outstanding amounts and Aral will be afforded the ability to restructure its financial affairs for a period of up to five years. There can be no assurance that Aral will be successful in negotiating the Rehabilitation Procedures. The application for Rehabilitation Procedures results in an automatic moratorium of up to two months on claims by creditors regardless of whether or not negotiations for Rehabilitation Procedures are successful.



# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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As of the issue date of these consolidated financial statement, Aral's property and several bank accounts are blocked by major trade creditors. Aral's management is negotiating debt repayment schedules with major trade creditors in order to unblock property and bank accounts.

During the period January to April 2016, Aral received loan advances from Sixth Energy Limited totalling USD 890 thousand for ongoing operating activities and loan repayments (Note 34). As a result, Aral continues to perform its operating activities without interruption.

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

### (a) Statement of compliance

The 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, 2015. The consolidated financial statements were authorized for issue by the Board of Directors on June 2, 2016.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for held-for-trading financial assets which are measured at fair value with changes in fair value recorded in profit or loss. The methods used to measure fair values are discussed in Note 6.

### (c) Functional and presentation currency

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 consolidated financial statements are presented in CAD.

## 3. Significant accounting policies

### (a) Basis of consolidation

#### (i) Subsidiaries:

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	10% by CEI, 40% by CECL and 50% owned by Groenzee

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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transactions, are eliminated in preparing the consolidated financial statements.

(ii) Joint arrangements:

Prior to the Acquisition described in Note 7, the Company's joint arrangement with respect to its interest in Aral was classified as a joint venture and was accounted for using the equity method whereby the Company's share of individual assets and liabilities were replaced with a net investment in joint ventures amount in the consolidated statements of financial position and individual revenues and expenses were replaced with earnings/losses from investment in joint ventures amount in the consolidated statements of loss and comprehensive loss.

(iii) Common control transactions:

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Business combinations involving entities under common control are outside the scope of IFRS 3 Business Combinations. IFRS provides no guidance on the accounting for these types of transactions. As a result, the Company was required to develop an accounting policy. The three most common methods utilized are the acquisition method, the predecessor values since inception method, and the predecessor values from the date of transaction method. The Company determined that the predecessor values since inception method to account for common control transactions is the most appropriate. This method requires the financial statements to be prepared using the predecessor carrying values without an adjustment to fair value. The difference between any consideration given and the aggregate carrying value of the assets and liabilities acquired, was recorded as an adjustment to the Company's deficit. Transaction costs associated with common control transactions are recognized as an expense in the period.

**(b) Foreign currency translation**

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

The financial results and position of the Canadian parent whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of the Canadian parent are transferred directly to the Company's exchange difference on translating foreign operations on the Statement of Comprehensive Loss and are reported as a separate component of shareholders' equity titled "Accumulated Other Comprehensive Income".

**(c) Financial instruments**

All financial instruments are initially recognized at fair value on the consolidated statements of financial position. The Company has classified each financial instrument into one of the following categories: fair value through profit or loss (assets and liabilities), loans and receivables, financial assets available-for-sale, financial assets held-to-maturity, and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, trade receivables and other current assets, trade and other payables, loans payable and the liability components of convertible loans and convertible debentures. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

#### Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such instruments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated statements of loss and comprehensive loss. The Company has designated cash and cash equivalents at fair value through profit or loss.

#### Other

Other non-derivative financial instruments, such as trade receivables and other current assets, trade and other payables, loans payable and the liability components of convertible loans and convertible debentures are measured at amortized cost using the effective interest method, less any impairment losses.

#### (ii) Derivative financial instruments:

The Company evaluates all financial instruments for freestanding and embedded derivatives. The conversion feature of convertible loans and debentures are embedded derivatives as the USD principal amounts are convertible into common shares at a CAD conversion price. As a result, the Company recognizes the fair values of the derivative components at the date of issuance, with the remainder of the proceeds attributed to the liability components of the convertible loans and convertible debentures. The derivative components are marked-to-market at each reporting date using the Black-Scholes pricing model to estimate the fair value. The liability components of convertible loans and convertible debentures accrete up to the related principal balances at maturity.

#### (iii) Share capital:

Common shares, warrants, stock options, performance shares and consideration warrants are classified as equity. Incremental costs directly attributable to the issue of common shares, warrants, share options, performance shares and consideration warrants are recognized as a deduction from equity, net of any tax effects.

The Company uses the Black-Scholes pricing model to estimate the fair value of warrants, stock options, performance shares and consideration warrants on the date of issuance. Inputs into the Black-Scholes pricing model require estimates, including such items as estimated volatility of the Company's stock and the estimated life of the financial instruments being fair valued.

#### (d) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank accounts and highly liquid bank deposits with original maturities of less than three months.

#### (e) Trade receivables and other current assets

Trade receivables and other current assets are initially recognized at fair value and subsequently accounted at amortized cost using the effective interest method less provision for impairment of such receivables. A provision for impairment of trade receivables and other current assets is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated statements of loss and comprehensive loss. The primary factor that the Company considers whether a receivable is impaired is its overdue

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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status.

#### (f) Inventory

Inventory is recorded at the lower of cost or net realisable value. The cost of inventory and supplies represents purchase cost. The cost of crude oil inventory comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). The cost of inventory is assigned on a weighted-average basis. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business less selling expenses or to management's estimates based on prevailing market conditions. Supplies are capitalised to property and equipment when used for renewals and betterments of oil and natural gas properties or recognised as expenses when used for daily operations. Slow-moving or obsolete inventory items are written-off to profit or loss.

#### (g) Restricted cash

Restricted cash represents funds accumulated on a special account in JSC Kazkommertsbank in Kazakhstan to meet future liabilities on site restoration.

#### (h) Value added tax

Kazakhstani tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis. VAT recoverable represents VAT on purchases net of VAT on sales.

VAT is payable to the tax authorities upon collection of accounts receivable from customers. VAT on purchases, which have been settled at the reporting date, is deducted from the amount payable. In addition, VAT related to sales which have not been collected at the reporting date is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT. The related deferred VAT liability is maintained until the debtor is written off for tax purposes.

VAT recoverable is recorded in accounts related to purchased goods, work and services, which were purchased with VAT and if the purchases were made in order to generate revenue.

At each reporting date, the VAT recoverable amount is subject to offsetting against the VAT payable.

#### (i) Exploration and evaluation assets

##### *Recognition and subsequent measurement*

Costs directly associated with an exploration drilling and geological and geophysical works related to the licensed area, historical costs and bonuses paid to the Government of Kazakhstan are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are recognised in profit or loss at the point at which this determination is made. No depletion is recognised during the exploration and evaluation phase as the assets are not yet in use.

##### *Impairment of exploration and evaluation assets*

Exploration and evaluation assets are tested for impairment whenever facts and circumstances suggest that the carrying amount exceeds the recoverable amount. An analysis is performed on a well-by-well basis, and once the well is considered dry, its cost is fully written-off.

One or more of the following facts and circumstances indicate that the Company should test exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of oil and natural gas resources in the specific area is neither budgeted nor planned;

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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- exploration for and evaluation of oil and natural gas resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Once commercial reserves are found, and development is sanctioned by management, exploration and evaluation assets are tested for impairment and transferred to development assets. Expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets. Extraction assets are aggregated with exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

#### (j) **Property and equipment**

##### *Recognition and subsequent measurement*

Property and equipment are stated at cost, less accumulated depletion and depreciation and impairment provisions, where required. The cost of property and equipment comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use, and development costs of oil and natural gas properties.

Development costs include the cost of drilling wells to produce proved reserves, the cost of production facilities (such as flow lines, separators, treaters, heaters, storage tanks, improved recovery systems and gas processing facilities) and other overhead costs related to development of oil and natural gas resources.

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given asset as a whole are depreciated individually, applying depreciation rates reflecting their anticipated useful lives. Cost of replacing major parts or components of property and equipment items are capitalised and the replaced part is retired.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Recognised as an item of property and equipment are specialised spare parts and servicing equipment with a significant initial value and a useful life of more than one year. Other spare parts and servicing-related equipment are recognised as inventories and accounted for in profit or loss at the moment they are used.

Gains and losses on disposals of property, plant and equipment (or component of an item of property and equipment) determined by comparing proceeds with carrying amount are recognised in profit or loss.

##### *Depletion and depreciation*

The cost of each item of property and equipment is depreciated using the straight-line method to their residual values over their estimated useful lives, except for production wells which are depreciated using the unit of production method applied to the net book value of assets at end of period, net of estimated salvage values and based on total proved developed reserves as determined by independent consulting engineers.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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The expected useful lives are as follows:

	<u>Useful lives in years</u> unit of production method
Oil and natural gas property	
Other tangible assets	
Machinery and equipment	5 – 10
Vehicles and other	3 – 14
Building and premises	7 – 14

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

#### *Impairment*

At the end of each reporting period, the Company reviews property and equipment for circumstances that indicate the assets may be impaired. Assets are grouped together into cash-generating units ("CGU") for the purpose of impairment testing. For the purposes of assessing impairment, management of the Company considers the East Zhagabulak field a CGU.

If any such indication of impairment exists, the Company makes an estimate of the CGU's recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less cost to sell of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in earnings.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized in profit or loss.

#### **(k) Impairment of financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of an impaired financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment

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loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statements of loss and comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

#### **(l) Provisions**

Provisions are recognized when the Company has a present or constructive obligation as a result of a past event that can be estimated with reasonable certainty and are measured at the amount that the Company would rationally pay to be relieved of the present obligation. To the extent that provisions are estimated using a present value technique, such amounts are determined by discounting the expected future cash flows at a risk-free pre-tax rate and adjusting the liability for the risks specific to the liability.

##### *Decommissioning obligation*

The Company recognizes a decommissioning obligation in the period in which a well is drilled or acquired and a reasonable estimate of the future costs associated with removal, site restoration and asset retirement can be made. The estimated decommissioning obligation is recorded with a corresponding increase in the carrying amount of the related cost centre.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the provision is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

#### **(m) Trade and other payables**

Trade and other payables are accrued when the counterparty has performed its obligations under the contract. Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

#### **(n) Loans payable**

Loans payable are initially recorded at fair value including transaction costs and subsequently measured at amortized cost using the effective interest method. The Company capitalizes borrowing costs to finance construction of qualifying assets during the period of the time that is required to complete the asset for its intended use. All other borrowings costs are expensed. Interest costs on borrowings are recognized in the period in which they are incurred regardless of how the borrowings are applied. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

#### **(o) Revenue recognition**

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, sales taxes, excise duties and similar levies.

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Revenue from the sale of oil and petroleum products is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. This generally occurs when the product is physically transferred into a pipe or other delivery mechanism.

#### **(p) Finance income and expenses**

Finance income and expenses comprise interest income, interest expense on borrowings, convertible loans and convertible debentures, accretion on convertible loans and convertible debentures, the unwinding of discount on other financial assets and liabilities and foreign exchange gains and losses. Interest income and interest expense are recognized as amounts accrue in the consolidated statements of loss and comprehensive loss using the effective interest rate method.

#### **(q) Operating leases**

Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor, the total lease payments are charged to profit or loss on a straight-line basis over the term of the lease.

#### **(r) Tax expense**

Tax expense is comprised of current and deferred tax. Tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded, using the asset and liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. However, deferred tax is not recorded on taxable temporary differences arising on the initial recognition of goodwill or on the initial recognition of assets and liabilities in a transaction other than a business combination that affect neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### **(s) Share-based compensation**

The Company grants stock options to purchase common shares to employees and directors under its stock option plan. Share-based compensation to these individuals is measured at the fair value of the options issued and recognized as expense over the vesting periods with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Proceeds received on exercise of stock options, along with amounts previously included in contributed surplus, are credited to share capital.

The Company enters into consulting services agreements whereby remuneration for services is based on the achievement of certain performance criteria and compensated with common shares of the Company. Share-based



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compensation for the related consulting services is measured at the fair value of the number of shares expected to be issued under the agreement and recognized as expense with a corresponding increase to contributed surplus. The fair value is estimated at the commencement of consulting services and at each reporting date thereafter until the earlier of the expiry of the agreement or the achievement of the performance criteria. At each fair value measurement date, the Company estimates the expected length time to meet the performance criteria and the likelihood that the performance criteria will be met. The initial fair value and subsequent changes in the fair value of consulting services is included in the consolidated statements of loss and comprehensive loss with a corresponding increase or decrease to contributed surplus.

#### (t) Per share amounts

Basic earnings (loss) per share is calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options granted to employees and directors, performance shares, warrants, consideration warrants and convertible loans and convertible debentures. The calculation assumes the proceeds on exercise of options are used to repurchase shares at the current market price. The effects of in-the-money warrants and options granted to employees and non-employees are anti-dilutive in loss periods.

#### 4. New and amended standards

##### (a) Standards and amendments effective in the current year

On January 1, 2015, the Company adopted amendments to IFRS 3 Business Combinations and IFRS 24 Related Party Disclosures. The adoption of these amendments had no impact on the amounts recorded in the financial statements for the year ended December 31, 2015.

##### (b) New and amended standards not yet adopted

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

###### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

###### IFRS 11 Joint Arrangements

Amendments to IFRS 11 Joint Arrangements clarify the accounting for acquisitions of interests in joint operations. The amendments are effective for annual periods beginning on or after January 1, 2016.

###### IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15 Revenue from Contracts with Customers which specifies how and when an entity will recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

###### IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and,

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instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

The Company is currently assessing the impact of these standards and amendments on its financial statements.

## 5. Critical accounting judgments and estimates in applying accounting policies

### (a) Judgments

Judgment is used in situations when there is a choice and/or assessment requirement by management. The following are critical judgments apart from those involving estimations (disclosed below), that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

#### (i) Going concern

As discussed in Note 1, these consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment to assess the Company's ability to continue as a going concern and the existence of conditions that cast doubt upon the going concern assumption.

It is management's assessment that the going concern assumption is appropriate based on the following events:

- The Company acquired the remaining 60% interest in Aral on May 20, 2015 thereby increasing the Company's ownership of Aral to 100% (Note 7).
- The Share Purchase Agreement contains a condition precedent in favour of Caspian that Sixth Energy and Meridian International Capital Fund ("Meridian") (collectively "the Lenders") will provide a secured loan facility of up to USD 61.5 million to Aral (Note 1).
- Aral has made a formal application for protection from its trade creditors (Note 1). If Aral is able to successfully negotiate the Rehabilitation Procedures with its creditors and obtain the requisite court approval, trade creditors and others will be prevented from commencing litigation against Aral for payment of outstanding amounts and Aral will be afforded the ability to restructure its financial affairs for a period of up to five years.

#### (ii) Common control transaction

Management applied judgment in its assessment of whether the all of the combining entities in the acquisition described in Note 7 are ultimately controlled by the same party, both before and after the transaction and that such control is not transitory. Management determined that the Company and Aral were controlled by Sixth Energy and Meridian both before and after the transaction as significant decisions for Caspian and Aral ultimately required the agreement and consensus of both Sixth Energy and Meridian.

#### (iii) Equity method of accounting for the 40% investment in Aral in 2014

Management applied judgment in its assessment of whether the Company's joint arrangement, structured through a Limited Liability Partnership (the "Partnership"), constitutes a joint operation requiring proportionate consolidation or a joint venture requiring the equity method of accounting.

Based on management's judgment, the joint arrangement is a joint venture based on the following:

- Aral's Charter represents a contractual arrangement between the participants of the Partnership and establishes joint control over the operations of Aral.
- Aral's Charter specifies that the assets and liabilities held by the Partnership are the assets and liabilities of

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the Partnership, not assets and liabilities of the participants of the Partnership.

(iv) Functional currency

The determination of the functional currency for the Company and each of its subsidiaries was based on management's judgment of the underlying transactions, events, and conditions relevant to each entity.

(v) Cash-generating units

The Company's assets are aggregated into CGUs based on an assessment of the unit's ability to generate independent cash in-flows. The determination of the Company's CGUs was based on management's judgment in regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality. The allocation of assets into CGU's requires significant judgment and interpretations with respect to the way in which management monitors operations.

(vi) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

(vii) Impairment

Judgments are required to assess when impairment indicators are evident and impairment testing is required.

(viii) Current and deferred taxes

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, current and deferred taxes are subject to measurement uncertainty. Management uses judgment to assess deferred tax assets at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

(ix) Performance criteria of share-based payments

Management applied judgment in its assessment of the likelihood of performance criteria in the consulting agreement disclosed in Note 22 being met. Based on management's judgment, the likelihood of the performance criteria being met is negligible as the direct consequences of the consulting services performed to date have yielded no significant improvements to the flow of petroleum for the wells specified in the consulting agreement.

(x) Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

#### (b) Estimates

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The significant areas of estimation uncertainty are as follows:

(i) Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the consolidated statement of loss and comprehensive loss and is also a key determinant in assessing whether the

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carrying value of any of the Company's development and production assets has been impaired. Changes in reported reserves can impact asset carrying values and the decommissioning provision due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

(ii) Carrying value of development and production and exploration and evaluation assets

If any indication exists that an asset or CGU may be impaired, the Company estimates the recoverable amount. The recoverable amounts of individual assets and CGUs have been determined based on the higher of value-in-use and fair value less costs to sell.

These calculations require the use of estimates and assumptions, such as estimates of proved plus probable reserves, future production rates, oil and natural gas prices, future costs and other relevant assumptions, all of which are subject to change. A material adjustment to the carrying value of the Company's development and production and exploration and evaluation assets may be required as a result of changes to these estimates and assumptions.

The Company's concessions may be subject to renewal extensions which require approval from local government authorities. The Company has been successful in obtaining approvals for certain of its concessions and is currently awaiting renewal on others. As there is no indication that pending extensions will not be approved, management has used judgment to conclude that all extensions will be approved. If the Company fails to obtain extension renewals, estimates of proved plus probable reserves may be negatively impacted.

(iii) Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable petroleum and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

(iv) Decommissioning provision

Amounts recorded for the Company's decommissioning provision require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position.

(v) Warrants, stock options, performance shares, consideration warrants and derivative financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities, by their very nature, are subject to measurement uncertainty. The Company uses the Black-Scholes pricing model to estimate the fair value of warrants, stock options, performance shares, consideration warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield, expected term and, with respect to performance shares, the likelihood of performance criteria being met.

(vi) Deferred taxes

Deferred taxes are based on estimates as to the timing of the reversal of temporary and taxable differences, substantively enacted tax rates and the likelihood of assets being realized.

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(vii) Contingencies

When contingencies exist, management estimates the related financial impact to the Company of the possible outcomes of one or more future events.

#### 6. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy is as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents have been measured using level 1 inputs. The derivative liability of convertible loans (Note 16) has been measured using level 2 inputs.

**(a) Cash and cash equivalents, trade accounts receivable and other current assets and trade and other payables**

The fair value of cash and cash equivalents, trade accounts receivable and other current assets and trade and other payables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2015 and 2014, the fair value of these balances approximated their carrying value due to their short term to maturity.

**(b) Convertible loans and convertible debentures**

The carrying value of convertible loans and convertible debentures includes the liability component and the embedded derivative related to the conversion feature of the loans and debentures. The embedded derivative is recognized at its fair value on the date of issuance, with the remainder of the proceeds attributed to the liability component of the convertible loans and convertible debentures. The derivative components are marked-to-market at each reporting date using the Black-Scholes pricing model to estimate the fair value. Subsequent to issuance, the liability components are accreted up to face value using the effective interest method.

**(c) Loans payable**

The fair value of loans payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2015, the fair value of loans payable was estimated at \$19.3 million (2014 – \$5.7 million) using a discounted cash flow analysis based on the Company's expected borrowing rate for similar borrowing arrangements.

**(d) Warrants, stock options, performance shares, consideration warrants and derivative financial instruments**

The fair values of stock options, performance shares and warrants are measured using a Black-Scholes pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected forfeiture rate (based on historic forfeitures), expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government

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bonds).

Measurement inputs for performance shares include the likelihood of the performance criteria being met and the expected length of time until the performance criteria are met. As management's assessment that the likelihood of the performance criteria will be met is negligible, no further calculations were considered necessary.

The Company did not issue any warrants, stock options or performance shares in 2014 or 2015. The Company issued 1,506,000 consideration warrants in 2015 (Notes 7 and 23).

#### 7. Common control transaction

On May 20, 2015, Caspian acquired ASER's 10% interest in Aral, all of the issued and outstanding shares of Groenzee BV and US\$146.9 million of debt owed by Groenzee BV to ASER (the "Acquisition"). Prior to the Acquisition, Caspian held a 40% interest in Aral, recognized in its consolidated financial statements using the equity method of accounting.

Consideration for the Acquisition was 278,194,556 Caspian common shares and 1,506,000 consideration warrants (Note 23) on terms corresponding to a warrant, stock option or performance share of Caspian outstanding on May 20, 2015. Each consideration warrant is exercisable only following the issuance of a Caspian common share upon the exercise of an outstanding warrant, stock option or performance share in accordance to which the terms of the particular consideration warrant corresponds.

The Company and Aral were controlled by Sixth Energy and Meridian prior to the closing of the Acquisition, and remained controlled by the Sixth Energy and Meridian immediately subsequent to closing. Consequently, Caspian and Aral were under common control both before and after the Acquisition. The Acquisition has been accounted for using the predecessor values at the date of transaction method whereby the 60% interest in Aral is transferred to the Company based on the carrying values of the net assets of Aral.

The following table summarizes the predecessor carrying values of the net assets (liabilities) acquired as at May 20, 2015:

Cash and cash equivalents	\$ 71
Current assets	2,754
Property and equipment	939
Exploration and evaluation assets	50,470
Other non-current assets	8,660
Current liabilities	(63,693)
Decommissioning provision	(1,294)
Carrying value of net liabilities acquired	<u>\$ (2,093)</u>

The difference between the total consideration of \$19.5 million and the carrying value of the net liabilities acquired of \$2.1 million is recognized as an adjustment to the Company's deficit, as follows:

Consideration	
Estimated fair value of Caspian common shares issued	\$ 19,474
Estimated fair value of consideration warrants issued	—
Estimated fair value of Caspian's 40% interest in Aral	—
	<u>19,474</u>
Carrying value of net liabilities acquired	<u>2,093</u>
Common control transaction adjustment to Company's deficit	<u>\$ 21,567</u>

The fair value of the share consideration is based on the \$0.07 closing share price of Caspian's common shares on May 20, 2015, the closing date of the Acquisition. The estimated fair value of the consideration warrants was determined to be a nominal amount as the likelihood of such consideration warrants being exercisable is remote. The estimated fair value of

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Caspian's 40% interest in Aral is a nominal amount as Caspian's investment in Aral was in a net liability position, with no representation of the investment in Caspian's consolidated financial statements.

The Company expensed transaction costs related to the Acquisition of \$143,000 during the year ended December 31, 2015 (2014 – \$1,135,000). During the period from May 20, 2015 to December 31, 2015, the acquisition attributed revenues of \$972,000 and a net loss of \$8,691,000 for the period, which is included in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2015.

If the Acquisition, as described above, had occurred on January 1, 2015, the Company estimates that in the year ended December 31, 2015, revenue would have increased by approximately \$27,000 and consolidated net loss would have increased by approximately \$3,293,000. This pro forma information is not necessarily indicative of results had the acquisition occurred on January 1, 2015.

#### 8. Cash and cash equivalents

	2015		2014	
Cash in CAD	\$	2	\$	53
Cash in USD		188		5
Cash in Pounds Sterling		1		1
Cash in KZT		31		–
	\$	222	\$	59

#### 9. Trade accounts receivable and other current assets

	2015		2014	
Compensation receivable from participants	\$	1,345	\$	–
Goods and services tax receivable		7		19
Prepaid taxes, insurance and other items		91		–
	\$	1,443	\$	19

The compensation receivable from participants as December 31, 2015 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 2016.

The Company considers its receivables to be aged as follows:

	2015		2014	
Current	\$	7	\$	19
31 to 120 days past due		24		–
Over 120 days past due		1,412		–
	\$	1,443	\$	19

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.

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#### 10. Restricted cash

Under the terms of the Exploration Contract, Aral has an obligation to create a liquidation fund of 1% of the capital cost of exploration (“the Liquidation Fund”) and deposit cash in a restricted bank account. The account balance at December 31, 2015 was \$37,000 (KZT 9,048,000). It is anticipated that the Liquidation Fund will be used to finance the cost of restoring the License Area upon expiration of the Exploration Contract and the Production Contract.

As at December 31, 2015, Aral also had a security deposit for foreign personnel in the amount of approximately \$1,000 (KZT 352,000).

#### 11. VAT receivable

As at December 31, 2015, the Company has non-current VAT receivable of \$4,819,000 (KZT 1,185,101,000). The Company expects that the full amount of non-current VAT receivable will be recovered against VAT accrued on future local sales.

#### 12. Property and equipment

	Oil and natural gas property		Other tangible assets		Total
<b>Cost</b>					
Balance at December 31, 2014 and 2013	\$	–	\$	–	\$ –
Acquired (Note 7)		–		939	939
Additions		–		10	10
Decommissioning revisions (Note 18)		92		6	98
Foreign exchange		(22)		(366)	(388)
<b>Balance at December 31, 2015</b>	<b>\$</b>	<b>70</b>	<b>\$</b>	<b>589</b>	<b>\$ 659</b>
<b>Accumulated depletion and depreciation</b>					
Balance at December 31, 2014 and 2013	\$	–	\$	–	\$ –
Depletion and depreciation included in expense		92		153	245
Depletion and depreciation included in inventory		–		(90)	(90)
Foreign exchange		(22)		(14)	(36)
<b>Balance at December 31, 2015</b>	<b>\$</b>	<b>70</b>	<b>\$</b>	<b>49</b>	<b>\$ 119</b>
<b>Carrying amount</b>					
December 31, 2014	\$	–	\$	–	\$ –
December 31, 2015	\$	–	\$	540	\$ 540
<b>13. Exploration and evaluation assets</b>					
Balance at December 31, 2014 and 2013				\$	–
Acquired (Note 7)					50,470
Additions					119
Decommissioning revisions (Note 18)					21
Foreign exchange					(19,504)
<b>Balance at December 31, 2015</b>				<b>\$</b>	<b>31,106</b>



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#### 14. Settlement of trade and other payables

On July 10, 2014 and August 27, 2014, the Company entered into agreements with the former Chief Executive Officer and a former director of Caspian, the Acting Chief Executive Officer and Chief Financial Officer and a director of Caspian, and two directors of Caspian (collectively, “the Executives”). Under the agreements, the Executives agreed to settle 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 totalling \$1,372,893 in exchange for aggregate cash payments of \$502,502 and the issuance of 3,138,240 common shares valued at \$188,294 based on the closing price of the Company’s shares on the date of issuance. The Company recognized a \$682,097 gain in connection with the settlement of trade and other payables.

#### 15. Loans payable

	2015	2014
Asia Dynamic (a)	\$ 9,532	\$ 8,436
Sixth Energy (b)	11,815	–
Meridian (c)	267	–
ASER (d)	259	–
Emir Oil (e)	980	–
	22,853	8,436
Current portion of loans payable	(980)	–
	\$ 21,873	\$ 8,436

##### (a) Asia Dynamic loan

As at December 31, 2014, 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. The loan was to be repaid with all proceeds received by the Company by way of dividends from Aral or from the sale of any asset by the Company with the balance of all principal and interest due on November 1, 2020. Pursuant to the facility agreement, the Company provided a pledge of all of its interest in Aral in favour of ASER as security for the Company’s obligations under the facility.

In connection with the Acquisition disclosed in Note 7, ASER agreed to assign the loan payable, prior to the closing of the Acquisition, 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 amendments to the loan have been accounted for as a modification of the loan payable for which a \$1,500,000 gain has been recognized in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2015.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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As at December 31, 2015 and 2014, the reported amount of the loan payable is comprised of the following:

	2015	2014
Principal	\$ 8,304 (USD 6,000)	\$ 6,976 (USD 6,000)
Accrued interest	2,742 (USD 1,981)	1,460 (USD 1,256)
Effect of modification	(1,500) (USD 1,230)	–
Accretion	177 (USD 136)	–
Foreign exchange	(191)	–
	\$ 9,532 (USD 6,887)	\$ 8,436 (USD 7,256)

#### (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 7.8 million was drawn as at December 31, 2015. 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. As the Interim Loan will be consolidated with the Loan Facility, it has been classified as long-term.

As at December 31, 2015, the \$11,815,000 balance owing under the Interim Loan is comprised of \$10,479,000 (USD 7.6 million) of principal plus \$1,336,000 of accrued interest.

#### (c) Meridian loan

On April 10, 2015, Meridian advanced to Aral (indirectly through Sixth Energy) USD 0.2 million principal amount as an advance under the Interim Loan which bears interest at an annual rate of 10%. Meridian, Sixth Energy and the Aral executed in favour of Meridian an acknowledged “Assignment of Interest in Loan Agreement” dated April 10, 2015 pursuant to which the USD 0.2 million principal amount together with interest thereon accrued from April 10, 2015 was assigned by Sixth Energy to Meridian.

As at December 31, 2015, the \$267,000 balance owing under the Meridian portion of the Interim Loan is comprised of \$249,000 (USD 0.2 million) of principal plus \$18,000 of accrued interest.

In March 2016, the loan was transferred to Sixth Energy in connection with the novation of rights and obligations of Meridian to Sixth Energy (Note 34 (b)).

#### (d) ASER loan

On May 25, 2015, the Company signed 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 2015, the Company drew USD 0.2 million under the facility.

As at December 31, 2015, the \$259,000 balance owing under the facility is comprised of \$256,000 (USD 0.2 million) of principal plus \$3,000 of accrued interest.

#### (e) Emir loan

In 2015, prior to the closing of the Acquisition, Aral received a short term non-interest bearing loan from Emir Oil in the amount of KZT 148 million (USD 0.8 million) and an additional KZT 93 million (USD 0.5 million) in the third quarter, for which the aggregate amortized cost at December 31, 2015 is \$980,000. The maturity date of the loans was December 31, 2015 and on February 10, 2016, Aral repaid KZT 87 million to Emir Oil (Note 34 (b)).

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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#### 16. Convertible loans

On July 7, 2014, the Company entered into an agreement (the “Loan Facility”) with its principal shareholders, Meridian International Capital Fund (“Meridian”) and Firebird Global Master Fund Holdings, Ltd. and Firebird Aurora Fund, Ltd. (collectively, “Firebird”), pursuant to which Meridian and Firebird provided short-term financing to Caspian by way of a secured convertible loan of up to USD 1.5 million (\$1.6 million), all of which was drawn and received by the Company on July 17, 2014 (the “July Advance”).

The Loan Facility was subsequently amended on November 3, 2014 to increase the maximum amount of the loan by USD 1.5 million to an aggregate total of USD 3 million. USD 0.9 million of the USD 1.5 million increase was advanced to Caspian in November 2014 and the remaining USD 0.6 million was advanced in January 2015.

Interest is payable on the Loan Facility at an annual rate of 12% per annum. The principal outstanding and any interest accrued thereon is payable on the earliest of (i) the later of November 30, 2014 and the termination of discussions in respect of a further transaction specified in the Loan Agreement, (ii) after the execution and delivery of a binding agreement with respect to such further transaction, the termination or non-fulfilment of any conditions specified in such binding agreement, and (iii) the occurrence of an event of default under the Loan Agreement. Notwithstanding the foregoing, all accrued interest will be forgiven in the event that the full principal amount outstanding is converted to equity prior to the repayment date. All liabilities under the Loan Agreement are secured by a pledge by Caspian of 100% of the equity interests in its wholly-owned subsidiary, Caspian Energy Limited.

As a condition of the closing of the Acquisition described in Note 7, the principal amount of the first USD 1.5 million of principal advanced under the Loan Facility was converted into 26,692,500 common shares at a conversion price of CAD \$0.06 per common share and the principal amount of remaining USD 1.5 million principal was converted into 24,336,428 common shares at a conversion price of CAD \$0.07 per common share. All accrued interest was forgiven upon conversion.

At initial recognition of amounts advanced in 2015, the fair value of the derivative liability was determined to be \$186,300 (2014 – \$621,400) and the liability component was \$529,453 (2014 – \$1,829,759), net of \$nil (2014 – \$180,136) of directly attributable transaction costs.

A continuity of convertible loans is as follows:

		Liability component		Derivative liability of conversion feature
Balance, December 31, 2013	\$	–	\$	–
Advances net of transaction costs		1,830		621
Interest and accretion		812		–
Fair value adjustment		–		56
Foreign exchange		38		–
Balance, December 31, 2014		2,680		677
Advances		537		187
Fair value adjustment		–		(864)
Interest and accretion		488		–
Conversion		(3,658)		–
Forgiveness of interest		(286)		–
Foreign exchange		239		–
Balance, December 31, 2015	\$	–	\$	–

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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The fair values of the derivative liability at initial recognition dates were determined using the Black-Scholes pricing model based on the following weighted-average assumptions:

	2014 advances at initial recognition	Reporting date December 31 2014	2015 advance at initial recognition
Risk free interest rate	1.04%	1.01%	0.88%
Expected life	0.28 years	0.16 years	0.34 years
Expected volatility	120%	120%	120%

#### 17. Convertible debentures

As at December 31, 2013, the Company had USD 12.5 million principal amount of 10% per annum convertible debentures (the “Debentures”) with an original maturity date of June 2, 2013 and secured with Caspian shares issued and outstanding. The Company was not able to repay the Debentures on the maturity date. The terms of the Debentures provide that a default occurs if there is a failure to pay principal on maturity and such failure to pay is not remedied within 30 days after receipt of written notice from the debenture holders (the “Holders”). In late June of 2013, the Company received notices from each of the Holders providing the Company with written notice of payment defaults.

The Company and the Holders entered into a remedial period extension agreement dated July 26, 2013 (the “Extension Agreement”) pursuant to which, among other things, the Holders agreed to extend the remedial period to August 26, 2013 during which time the Company could remedy the payment defaults before such payment defaults would constitute defaults under the Debenture agreements. Such remedial period was further extended pursuant to amendments to the Extension Agreement dated August 26, 2013, September 26, 2013, October 26, 2013, November 26, 2013 and December 17, 2013.

The December 17, 2013 amendment extended the remedial period to February 20, 2014. On January 15, 2014, the Company entered into a further extension agreement (the “Amended Extension Agreement”) with the Holders, pursuant to which the Company and Holders executed the Debenture Amendment which provides for the conversion (the “Conversion”) of the outstanding Debentures, and the obligations owing thereunder, into an aggregate of 108,319,091 shares, representing approximately 82.5% of the Company’s outstanding common shares on the business day following the receipt of shareholder approval for, among other things, the one-for-ten share consolidation (Note 20) and the Conversion.

The Company received shareholder approval on February 19, 2014 and on February 20, 2014, following approval by the NEX board of the TSX Venture Exchange, the Debentures were converted to 108,319,091 common shares.

A continuity of the Debentures is as follows:

	Liability component
Balance, December 31, 2013	\$ 15,949
Interest	179
Foreign exchange	606
Balance, February 20, 2014	16,734
Conversion to 108,319,091 common shares (Note 20)	(16,248)
Gain on conversion of Debentures	(486)
Balance, December 31, 2014 and 2015	\$ –

Interest continued to accrue on the debenture principal amount at 10% per annum during the remedial period and extensions. The fair value of the conversion feature became \$nil when it expired on the maturity date, June 2, 2013.

Upon conversion of the Debentures, the Company recognized a gain in the amount of \$486,000 in the consolidated statement

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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of loss and comprehensive loss for the year ended December 31, 2014.

#### 18. Decommissioning obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and natural gas properties:

Balance at December 31, 2014 and 2013	\$	–
Acquired (Note 7)		1,294
Revisions		119
Accretion		83
Foreign exchange		(547)
Balance at December 31, 2015	\$	949

The following significant weighted average assumptions were used to estimate the December 31, 2015 decommissioning obligation:

Undiscounted cash flows - uninflated	\$0.9 million (KZT 233.5 million)
Inflation rate	8%
Risk-free rate	8%
Expected timing of cash flows	20 years

#### 19. Taxes

Tax expense for the years ended December 31, 2015 and 2014 is as follows:

	2015	2014
Current tax expense	\$ 46	\$ –
Deferred tax expense	4,862	–
	\$ 4,908	\$ –

The following is a reconciliation of income taxes calculated at the combined Federal and Provincial rates with the income tax expense in the consolidated statement of loss and comprehensive loss:

	2015	2014
Loss before income taxes	\$ (10,122)	\$ (4,848)
Expected recovery at statutory tax rate of 26% (2014 – 25%)	(2,632)	(1,212)
Change in deferred tax asset not recognized	12,402	(9,079)
Expiry of tax losses	–	8,562
Change in tax pool estimates and other non-deductible items	(16,318)	1,729
Effect of tax rate differences	11,456	–
	\$ 4,908	\$ –

The statutory tax rate for the year ended December 31, 2015 increased from 25% to 26% due to an increase in the provincial tax rate on July 1, 2015. The statutory tax rate was unchanged in the year ended December 31, 2014.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. A deferred tax asset related to deductible temporary difference has been recorded as the Company expects that future taxable profits will be sufficient to utilize the deferred tax asset.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

As at December 31, 2015, the Company had estimated \$47.5 million (2014 – \$48.7 million) of Canadian tax losses available for deduction against future Canadian taxable income which expire between 2025 and 2034 and \$39.9 million (KZT 9,810 million) of Kazakhstani tax losses available for deduction against future Kazakhstani taxable income which expire between 2016 and 2025.

The components of the net deferred tax asset (liability) at December 31 are:

	2015	2014
Tax reserves	\$ (17,385)	\$ (9,278)
Loans payable	(409)	–
Tax losses available for carry forward	12,832	9,278
Share issue costs	44	–
Property and equipment	56	–
	\$ (4,862)	\$ –

The unrecognized deductible temporary (taxable) differences at December 31 are as follows:

	2015	2014
Tax losses available for carry forward	\$ 39,892	\$ 11,612
Convertible notes and derivative liability	–	635
Share issue costs	–	218
Property and equipment	218,254	209
	\$ 258,146	\$ 12,674

## 20. Share capital

### (a) Authorized

Unlimited number of voting common shares, without stated par value

### (b) Issued

On February 19, 2014, the Company's shareholders approved a one-for-ten consolidation of the Company's common shares. All common share, warrant and stock option figures presented herein are on a post-consolidated basis.

	Number of shares	Amount
<b>Balance, December 31, 2013</b>	<b>23,021,777</b>	<b>\$ 143,559</b>
Settlement of trade and other payables (Note 14)	3,138,240	188
Conversion of convertible debentures (Note 17)	108,319,091	16,248
Cancellation of shares (i)	(44,999)	–
Share issue costs	–	(92)
<b>Balance, December 31, 2014</b>	<b>134,434,109</b>	<b>159,903</b>
Acquisition (Note 7)	278,194,556	19,474
Conversion of convertible loans (Note 16)	51,028,928	3,658
<b>Balance, December 31, 2015</b>	<b>463,657,593</b>	<b>\$ 183,035</b>

(i) During 2014, the Company cancelled 44,999 shares with a nominal amount which were deemed not-issuable by the holders.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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#### 21. Warrants

A continuity of warrants outstanding as at December 31 is summarized as follows:

	Number of warrants	Weighted average exercise price	Amount
<b>Balance, December 31, 2013</b>	<b>317,835</b>	<b>\$ 1.17</b>	<b>247</b>
Expired	(154,780)	(1.77)	(183)
<b>Balance, December 31, 2014</b>	<b>163,055</b>	<b>\$ 0.60</b>	<b>64</b>
Expired	(163,055)	(0.60)	(64)
<b>Balance, December 31, 2015</b>	<b>–</b>	<b>\$ –</b>	<b>–</b>

#### 22. Share-based compensation

##### (a) Stock options

The Company has a stock option plan (“the Plan”) for which up to 15% of the issued and outstanding common shares can be reserved for issuance to directors, officers and employees. Options are granted at the discretion of the Board of Directors. The exercise price, vesting period and expiration period are fixed at the time of grant at the discretion of the Board of Directors in accordance with terms of the Plan.

A continuity of options outstanding as at December 31 is summarized as follows:

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening	1,004,000	\$ 1.35	2,584,162	\$ 1.44
Expired	(100,000)	2.00	(1,580,162)	1.50
Forfeited	(187,000)	1.31	–	–
Closing	717,000	\$ 1.28	1,004,000	\$ 1.35
Exercisable	717,000	\$ 1.28	1,004,000	\$ 1.35

Information about options outstanding and exercisable as at December 31, 2015 is summarized in the following table:

Exercise price	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of options exercisable
\$ 0.70	200,000	0.70	0.53	200,000
\$ 0.95	200,000	0.95	0.48	200,000
\$ 1.80	167,000	1.80	0.12	167,000
\$ 1.90	150,000	1.90	0.44	150,000
	717,000	\$ 1.28	0.40	717,000

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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#### (b) Performance shares

The Company entered into an agreement on August 18, 2012 and amended in January 2013, (“the Amended Consulting Agreement”) with a petrophysicist (the “Consultant”) for the provision of consulting services in connection with the exploitation, development and completion of eight Aral wells in the Republic of Kazakhstan. Pursuant to the amended Consulting Agreement, remuneration for consulting services is performance based and the Consultant will be compensated with common shares of the Company according to certain performance criteria.

In consideration for the provision of services pursuant to the amended Consulting Agreement, the Company has agreed to issue the following Consideration Shares and Bonus Shares (collectively, the performance shares) to the Consultant:

- In respect of each well where, as a direct consequence of the services provided by the Consultant, the flow of petroleum in relation to such well when measured in accordance with the Amended Consulting Agreement has a barrels of oil per day rate (“Bopd Rate”) in excess of 2,000, the Company will issue 250,000 common shares in respect of such well (the “Consideration Shares”). The maximum number of Consideration Shares issuable pursuant to the Amended Consulting Agreement is 2 million.
- Provided always that as a direct consequence of the services provided by the Consultant, the flow of petroleum in relation to any well when measured in accordance with the Amended Consulting Agreement is in excess of a Bopd Rate of 2,000, the Company will issue the following additional common shares (the “Bonus Shares”):
  - (a) if at any time during the period of four years commencing on the date of the Amended Consulting Agreement, the volume weighted average trading price of the Company’s common shares (as quoted on the Toronto Stock Exchange (the “TSX”) or such other exchange on which the Company’s common shares are listed) exceeds \$25.00 for a period of not less than 20 trading days, 50,000 common shares;
  - (b) if at any time during the period of four years commencing on the date of the Amended Consulting Agreement, the volume weighted average trading price of the Company’s common shares (as quoted on the TSX or such other exchange on which the Company’s common shares are listed) exceeds \$50.00 for a period of not less than 20 trading days, 150,000 common shares; and
  - (c) if at any time during the period of four years commencing on the date of the Amended Consulting Agreement, the volume weighted average trading price of the Company’s common shares (as quoted on the TSX or such other exchange on which the Company’s common shares are listed) exceeds \$100.00 for a period of not less than 20 trading days, 400,000 common shares.

The maximum number of Bonus Shares issuable pursuant to the Amended Consulting Agreement is 600,000.

If all performance criteria are met, the Consultant would be entitled to a maximum of 2.6 million common shares of the Company (the “Maximum Consideration”). At the Company’s option, the Company can elect to satisfy all or a portion of consideration payable in cash. Any amounts elected to be paid in cash would be determined by the number of Consideration Shares or Bonus Shares payable multiplied by the market price of the Company’s common shares at the close of trading on the date the particular Consideration Shares or Bonus Shares became payable.

The fair value of performance shares at inception of the agreement and at subsequent reporting dates, including the modification related to the January 2013 amendments, was estimated to be a negligible amount and therefore no amount has been recognized in the consolidated statements of loss and comprehensive loss in respect of consulting services performed to date. As of December 31, 2015, no performance shares had been issued.

#### 23. Consideration warrants

Pursuant to the Acquisition and the terms of the Share Purchase Agreement, the Company issued 1,506,000 consideration warrants to ASER and the Investors, based on a multiplier of 1.5 times the number of warrants, stock options or performance shares of Caspian outstanding on May 20, 2015 of which there were nil warrants, 1,004,000 stock options and nil performance shares outstanding. Each consideration warrant is exercisable only following the issuance of a Caspian



# Caspian Energy Inc.

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common share upon the exercise of an outstanding warrant, stock option or performance share in accordance to which the terms of the particular consideration warrant corresponds.

During 2015, 430,500 consideration warrants expired. As at December 31, 2015, the Company had 1,075,500 consideration warrants outstanding as summarized in the following table:

Exercise price	Number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number exercisable
\$ 0.70	300,000	0.70	0.53	–
\$ 0.95	300,000	0.95	0.48	–
\$ 1.80	250,500	1.80	0.12	–
\$ 1.90	225,000	1.90	0.44	–
	1,075,500	\$ 1.28	0.40	–

#### 24. Per share amounts

	2015	2014
Net loss for the year	\$ (15,030)	\$ (4,848)
Weighted average number of shares (in thousands) – basic:		
Issued common shares at January 1	134,434	23,022
Effect of shares issued since January 1, net	202,946	94,636
	337,380	117,658
Net loss per share – basic and diluted	\$ (0.04)	\$ (0.04)

The effect of stock options, performance shares, convertible loans, convertible debentures and warrants is anti-dilutive in loss periods.

#### 25. Finance expense

	2015	2014
Interest and accretion on loans payable (Note 15)	\$ 1,739	\$ 745
Interest and accretion on convertible loans (Note 16)	488	812
Forgiveness of interest (Note 16)	(286)	–
Interest and accretion on convertible debentures (Note 17)	–	179
Accretion of decommissioning obligation (Note 18)	83	–
<b>Net finance expense</b>	<b>\$ 2,024</b>	<b>\$ 1,736</b>

#### 26. Compensation

##### (a) Employee compensation cost

The consolidated statement of loss and comprehensive loss is prepared primarily by nature of expense. During 2015, the Company incurred \$336,000 (2014 – \$869,000) of employee compensation cost which is included in general and administrative expenses.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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#### (b) Directors and key management compensation

The Company considers its directors and executives to be key management personnel. Compensation attributed to key management personnel comprises the following:

		2015	2014
Salaries	\$	250	\$ 390
Severance		–	363
Director fees		86	116
	\$	<b>336</b>	\$ <b>869</b>

#### 27. Related party transactions

The Company conducts business with the following related parties:

Company	Relationship as at December 31, 2015
Sixth Energy	Owned and controls approximately 33.4% of the Company's issued and outstanding shares
Meridian	Owned and controls approximately 26.5% 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 Notes 15 and 16.

The following related party amounts have been recognized in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2015 and 2014:

	2015	2014
Interest and accretion on loans payable		
Sixth Energy	\$ 601	\$ –
Meridian	14	–
ASER	3	–
Asia Dynamic	1,121	745
	<u>1,739</u>	<u>745</u>
Interest and accretion on convertible loans – Meridian	488	812
Forgiveness of interest – Meridian	(286)	–
Gain on modification of loan payable – Asia Dynamic	(1,500)	–
	<u>\$ 441</u>	<u>\$ 1,557</u>

#### 28. Supplemental cash flow disclosure

##### (a) Change in non-cash working capital

	2015	2014
Trade receivables and other current assets	\$ 903	\$ (15)
Inventory	278	–
Trade and other payables	(20,898)	(710)
	<u>\$ (19,717)</u>	<u>\$ (725)</u>

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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#### (b) Non-cash transaction

During 2014, the Company paid \$502,502 of cash and issued 3,138,240 common shares valued at \$188,294 in settlement of \$1,372,893 of trade and other payables (Note 14).

#### (c) Income taxes

The Company did not pay any income taxes in 2015 or 2014.

### 29. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its operating and financing activities such as credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

#### (a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's trade and other receivables are with customers in the petroleum and natural gas business and are subject to normal credit risks. The Company's cash and cash equivalents and restricted cash consist of cash in bank accounts and highly liquid bank deposits with original maturities of less than three months. Accordingly, the Company views credit risk as minimal.

The maximum exposure to credit risk is as follows:

	2015	2014
Cash and cash equivalents	222	59
Trade receivables and other current assets (Note 9)	1,443	19
Restricted cash	38	–
	1,703	78

#### (b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. There is presently significant liquidity risk in that the Company will not be able to meet its financial obligations as they come due. The Company aims to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company's cash and cash equivalents are invested in business accounts, which are available upon demand for the Company's requirements. Cash and cash equivalents are not invested in any asset-backed deposits or investments.

As disclosed in Note 1, Aral has made a formal applications for protection from its trade creditors and is in the process of negotiating Rehabilitation Procedures with its creditors and obtaining the requisite court approval. If Aral is successful, trade creditors and others will be prevented from commencing litigation against Aral for payment of outstanding amounts and Aral will be afforded the ability to restructure its financial affairs for a period of up to five years. In addition, it is expected that further debt and equity financings will be required in order to settle current liabilities, continue development of the Company's assets and meet future obligations. There can be no assurance that the Rehabilitation Procedures will be successful or that future financings will be available to the Company.

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The following are contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2015:

	Carrying amount	Estimated contractual cash flows	Due in			
			2016	2018	2019	2025
Trade and other payables	32,260	32,260	32,260	–	–	–
Loans payable	22,853	29,996	980	14,658	13,858	500

#### (c) Market risk:

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates, will affect the Company's net earnings or the value of the financial instruments. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. Caspian may utilize derivative instruments to manage market risk. The Company had no financial derivative contracts at December 31, 2015 or 2014.

##### (i) 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	
	As at December 31		Year ended December 31	
	2015	2014	2015	2014
KZT <sup>(1)</sup>	0.0041	0.0065	0.0053	0.0063
USD	1.3840	1.1627	1.2785	1.0968

<sup>(1)</sup> Average rate for 2015 is for the period from May 20, 2015 (Note 7) to December 31, 2015.

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

As at December 31, 2015	Balance denominated in		Total CAD equivalents
	KZT	USD	
Cash and cash equivalents	7,601	127	207
Trade receivables and other current assets	353,138	–	1,436
Trade and other payables	(7,846,141)	(100)	(32,043)
Loans payable	–	(16,512)	(22,853)

As at December 31, 2014	Balance denominated in		Total CAD equivalents
	KZT	USD	
Cash and cash equivalents	–	4	5
Trade receivables and other current assets	–	–	–
Trade and other payables	–	(106)	(123)
Loans payable	–	(7,256)	(8,436)
Convertible loans	–	(2,305)	(2,680)

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 December 31, 2015 and 2014 on foreign denominated financial

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

instruments held by the Company, with other variables such as interest rates and commodity prices held constant:

	2015	2014
KZT	6,088	–
USD	2,281	1,123
	8,369	1,123

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 more than 46% as of December 31, 2015. 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.

(ii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash and short-term investments is at nominal rates and therefore, the Company does not consider interest rate risk to be significant. The Company has no variable interest-bearing financial liabilities. The Company had no interest rate swaps or financial contracts in place at December 31, 2015 or 2014.

(iii) Commodity price risk:

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Lower commodity prices reduce the Company's ability to raise capital. Commodity prices for crude oil are impacted by world economic events that dictate the levels of supply and demand. The Company had no commodity price risk derivative contracts at December 31, 2015 or 2014. At December 31, 2015, with other variables unchanged, a 10% movement in commodity prices would have a \$97,000 (2014 – nominal effect) effect on the Company's consolidated net loss.

### 30. Capital management

The Company's general policy is to maintain a sufficient capital base in order to manage its business effectively with the goal of increasing the value of its assets and thus its underlying share value. The Company's objectives when managing capital are to maintain financial flexibility to meet financial obligations, to facilitate growth, and to optimize the use of capital resources to provide an appropriate investment return to its shareholders. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may:

- Issue new shares through a public offering or private placement;
- Utilize its working capital; or
- Access other forms of debt.

The Company considers its capital structure to include shareholders' equity, working capital and loans payable:

	2015	2014
Total shareholders' deficit	\$ (22,697)	\$ (12,085)
Working capital deficiency	(31,516)	(3,649)
Loans payable	22,853	8,436

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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#### 31. Commitments and contingencies

##### (a) Tax contingent liabilities in the Republic of Kazakhstan

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2015.

The Company believes that tax liabilities have been accounted for sufficiently. Nevertheless, the interpretation of the relevant authorities may differ, which could have a serious effect on these financial statements.

##### (b) Transfer pricing

The Kazakhstani law on transfer pricing prescribes Kazakhstani companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in international transactions, such as export sales, including existence of the documentation supporting the prices and differentials. Additionally, differentials could not be applied to the international transactions with companies registered in off-shore countries. In case of deviation of transaction price from market price the tax authorities have the right to adjust taxable items and to impose additional taxes, fines and interest penalties.

Aral has had no export sales in recent years. The Company's transfer pricing policy is considered to be in accordance with transfer pricing legislation and the Company believes that its transfer pricing policy will be sustained and all documentation supporting determination of export prices will be provided to the government authorities, if required.

Regardless of the inherent risks that the tax authorities may question transfer pricing policy of the Company, related to the law on transfer pricing, the management of the Company believes that it will be able to sustain its position in case the transfer pricing policy of the Company will be challenged by the tax authorities.

##### (c) Export sales

According to the Exploration Contract, Aral is required to sell 100% of oil extracted during the term of the Exploration Contract for refining in Kazakhstan. Commencing from September 2005, Aral applied on a monthly basis to the ME of ROK for its production for the succeeding month to be included in the Ministry's Export Quota for transportation by rail. Should Kazakhstani government authorities determine that Export Quotas received by the Company were in violation of the Exploration Contract, Aral may be subject to fines and penalties which cannot be reliably estimated and/or to the termination of the Exploration Contract.

According to the Production Contract, Aral is obliged to sell 20% of produced crude oil to the domestic market. Aral has had no export sales in recent years and all produced crude oil was sold to the domestic market.

##### (d) Minimum work program

On December 29, 2015, the Company signed Addendum No. 10 to its Subsurface Use Contract No.1081 that decreased minimal work program for 2015 and moved drilling of two wells to work program of 2016. As a result the Company fulfilled its minimal commitments for 2015 in all material respects.

Non-fulfilment of commitments under the minimum work program may result in punitive actions by the Government of the ROK, including suspending or revoking the Exploration Contract. Aral believes that non-compliance with these Exploration Contract terms would not lead to any significant adjustments to the financial statements.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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#### (e) Social and training commitments

In accordance with the Exploration Contract, the Aral is obliged to finance certain training of Kazakhstani staff engaged in the works to be executed under the Exploration Contract in amount of not less than 1% of Aral's annual investment cost.

In accordance with the Exploration Contract and the Production Contract, Aral is obliged to finance certain social infrastructure annually. The annual amount of social obligation is equal to USD 160,000. For the years 2015 and 2014, the Company fulfilled its social obligations under Production and Exploration Contracts in full.

#### (f) Restoration

Under the terms of the Exploration Contract, Aral should create a liquidation fund (Note 10). The full extent of the Aral's obligation to restore the License Area will not be known until it submits and agrees a proposed program for restoration of the License Area which is required to be submitted within two years after the Production Contract signing.

#### (g) Gas utilisation

In January 2014, Aral received approval from Ministry of Industry and New Technologies of its submission of a technical scheme on development and production in the East Zhagabulak area of the License Area. Accordingly, as of December 31, 2013, the Production Contract was considered to be fully approved by the ME of the ROK.

Subsequently, Aral made an assessment on realisation of the approved gas utilisation plan by construction of special plant that will pump back gas to land. For the period of construction, Aral requested state authorities for an approval on associated gas flaring. At the same time, the ME of the ROK offered a program under which Aral will be provided with approval for associated gas flaring till December 2016. During this period, state authorities' plans to construct gas processing plant in the Aktobe region, and in its turn after completion and commissioning of the gas processing plant, Aral, along with other oil producers in this region can supply the processing plant with associated gas on a free of charge basis.

During 2015, the ME of the ROK decided that delivery of Aral gas from the East Zhagabulak field to an existing gas processing facility, located seven kilometres from the field, is a viable alternative to the construction of gas reinjection facilities. This decision was approved on July 30, 2015. On November 4, 2015 Aral obtained permission for gas flaring until December 31, 2016.

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## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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#### 32. Selected financial information for Aral Petroleum Capital LLP

As at December 31, 2014, the Company held a 40% interest in Aral, recognized in these consolidated financial statements using the equity method of accounting. As the investment is in a negative net asset position, there is no representation of the investment in the Company's consolidated financial statements. To date, the Company has not received any dividends from Aral.

##### (a) Aral's results of operations, assets and liabilities

Aral's functional currency is the Kazakhstani Tenge (the "Tenge"). The assets and liabilities of Aral are translated into CAD at the exchange rate at the statement of financial position date. Revenues and expenses of Aral are translated into CAD using foreign exchange rates that approximate those on the date of the underlying transaction.

A summary of Aral's results of operations, assets and liabilities as at and for the year ended December 31, 2014 is presented below:

<b>For the year ended December 31</b>	<b>2014</b>
Oil and natural gas revenue, net	\$ 7,385
General and administrative expenses	(2,549)
Operating and transportation expenses	(6,992)
Depletion and depreciation expense	(770)
Impairment of property, plant and equipment	–
Interest expense	(23,446)
Foreign exchange and other expenses	(33,355)
<b>Loss and comprehensive loss</b>	<b>\$ (59,727)</b>

  

<b>As at December 31</b>	<b>2014</b>
Cash and cash equivalents	\$ 2
Other current assets	2,655
<b>Total current assets</b>	<b>2,657</b>
Exploration and evaluation assets	48,877
Property, plant and equipment	1,034
Other non-current assets	9,156
<b>Total non-current assets</b>	<b>59,067</b>
<b>Total assets</b>	<b>61,724</b>
Trade and other payables	52,104
Current loans payable	252,621
<b>Total current liabilities</b>	<b>304,725</b>
Long-term loans payable	–
Other non-current liabilities	1,253
<b>Total non-current liabilities</b>	<b>1,253</b>
<b>Total liabilities</b>	<b>\$ 305,978</b>

As at December 31, 2014, the carrying value of property, plant and equipment was comprised of \$1,034 for machinery, equipment and vehicles and \$nil for developed and producing oil and gas assets.



# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

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#### (b) Caspian's 40% interest in Aral's results of operations, assets and liabilities

A summary of the Company's 40% interest in Aral's results of operations, assets and liabilities as at and for the year ended December 31, 2014 is presented below:

<b>For the years ended December 31</b>		<b>2014</b>
Oil and natural gas revenue, net	\$	2,954
General and administrative expenses		(1,020)
Operating and transportation expenses		(2,796)
Depletion and depreciation expense		(308)
Impairment of property, plant and equipment		–
Interest expense		(9,378)
Foreign exchange and other expenses		(13,344)
<b>Loss and comprehensive loss</b>	<b>\$</b>	<b>(23,892)</b>

<b>As at December 31</b>		<b>2014</b>
Current assets	\$	1,063
Exploration and evaluation assets		19,551
Property, plant and equipment		414
<b>Total assets</b>		<b>24,960</b>
Current liabilities		121,890
<b>Total liabilities</b>		<b>122,391</b>

As at December 31, 2014, the Company's unrecognized 40% interest of Aral's cumulative losses recognized by Aral was \$101,292.

# Caspian Energy Inc.

## Notes to Consolidated Financial Statements

### For the years ended December 31, 2015 and 2014

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

#### 33. 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.

	December 31, 2015			December 31, 2014		
	Kazakhstan	Other	Total	Kazakhstan	Other	Total
Property and equipment	\$ 540	-	540	\$ -	-	-
Exploration and evaluation assets	\$ 31,106	-	31,106	\$ -	-	-
Other assets	\$ 6,425	156	6,581	\$ -	78	78
Total liabilities	\$ 45,927	14,997	60,924	\$ -	12,163	12,163
Capital expenditures	\$ 129	-	129	\$ -	-	-

	Year ended December 31, 2015			Year ended December 31, 2014		
	Kazakhstan	Other	Total	Kazakhstan	Other	Total
Revenue	\$ 972	8	980	\$ -	10	10
Operating costs (recovery)	1,217	(4)	1,213	-	8	8
General and administrative	629	687	1,316	-	1,784	1,784
Transaction costs	-	143	143	-	1,135	1,135
Depletion and depreciation	245	-	245	-	-	-
Finance expense	698	1,326	2,024	-	1,736	1,736
Other items	6,792	(631)	6,161	-	195	195
Tax expense	-	4,908	4,908	-	-	-
Segment net loss	\$ (8,609)	(6,421)	(15,030)	\$ -	(4,848)	(4,848)

#### 34. Subsequent events

- (a) During the period January to April 2016, Aral received loan advances from Sixth Energy Limited (Note 15(b)) totalling USD 890 thousand for ongoing operating activities and loan repayments.
- (b) On February 10, 2016, the Company repaid KZT 87 million to Emir Oil (Note 15(e)).
- (c) In March 2016, pursuant to the Share Purchase Agreement, Sixth Energy increased its equity ownership interest in Company to approximately 59.9% by acquiring 122,879,055 common shares of the Company from Meridian and its affiliate YF Finance Limited, being all of the shares held directly and indirectly by Meridian. As contemplated by the Share Purchase Agreement, the parties also effected certain ancillary transactions, including the novation of all rights and obligations of Meridian to Sixth Energy relating to the USD 61.5 million secured loan facility between Aral, Sixth Energy and Meridian (Note 1) and the \$267,000 Meridian loan (Note 15(c)).