Caspian Energy Inc.

Consolidated Financial Statements
December 31, 2012 and 2011

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 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.

April 22, 2013

(signed) "*WILLIAM RAMSAY*"

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William Ramsay, President

Independent Auditors' Report

To the Shareholders of Caspian Energy Inc.:

We have audited the accompanying consolidated financial statements of Caspian Energy Inc., and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and 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 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 is necessary to enable the preparation of consolidated 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 auditor's 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 financial position of Caspian Energy Inc. and its subsidiary as at December 31, 2012 and 2011, and their financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matters
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 on the Company's ability to continue as a going concern.

Without qualifying our opinion, we also draw attention to Note 27 in the consolidated financial statements which explains that certain comparative information for the year ended December 31, 2011 has been restated.

MNP LLP

April 22, 2013
Calgary, Alberta

Chartered Accountants

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MNP

Caspian Energy Inc.

Consolidated Statements of Financial Position

As at December 31

(in thousands of Canadian dollars)

	2012 $	2011 $ (Restated – Note 27)
Assets		
Current assets		
Cash and cash equivalents (Note 7)	55	2,296
Trade and other receivables	1,427	732
Inventory (Note 8)	540	987
	2,022	4,015
Non-current assets		
Restricted cash (Note 9)	8	290
VAT receivable	2,541	1,305
Exploration and evaluation assets (Note 10)	21,238	29,107
Property, plant and equipment (Note 11)	15,104	7,406
Total assets	40,913	42,123
Liabilities		
Current liabilities		
Trade and other payables	20,366	15,116
Loans payable (Note 12)	37,350	34,538
Convertible debentures (Note 13)	11,011	–
Derivative liability (Note 13)	208	–
	68,935	49,654
Non-current liabilities		
Taxes payable	45	–
Decommissioning liabilities (Note 14)	238	249
Loans payable (Note 12)	8,484	2,100
Convertible debentures (Note 13)	–	6,287
Derivative liability (Note 13)	–	2,363
Total liabilities	77,702	60,653
Equity		
Share capital (Note 16)	143,358	143,092
Warrants (Note 17)	313	272
Contributed surplus	17,660	16,055
Accumulated other comprehensive income	1,821	484
Deficit	(199,941)	(178,433)
Total equity	(36,789)	(18,530)
Total liabilities and equity	40,913	42,123

Reporting entity and going concern (Note 1)
Commitments, contingencies and operating risks (Note 23)

Approved by the Board of Directors

(signed) "*WILLIAM RAMSAY*" Director (signed) "*GORDON HARRIS*" Director

Caspian Energy Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31

(in thousands of Canadian dollars)

	2012 $	2011 $
		(Restated – Note 27)
Revenue		
Oil and natural gas revenue, net	3,683	3,606
Expenses		
General and administrative	3,045	4,313
Operating expenses	2,476	2,963
Transportation	1,321	1,578
Share-based compensation (Note 18)	1,519	1,647
Depletion and depreciation	751	1,034
Impairment of exploration and evaluation assets (Note 10)	9,796	–
Geological and geophysical	–	71
	18,908	11,606
Operating loss before other items	(15,225)	(8,000)
Derivative fair value adjustment (Note 13)	2,111	5,754
Finance expense (Note 20)	(7,761)	(5,201)
Loss on disposition (Note 6)	–	(30,074)
Other expense	(633)	(21)
Loss	(21,508)	(37,542)
Foreign exchange translation	1,337	(321)
Comprehensive loss	(20,171)	(37,863)
Loss per share (Note 19)	(0.10)	(0.20)

Caspian Energy Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31

(in thousands of Canadian dollars)

	Share capital $	Warrants $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total equity (deficit) $
Balance – December 31, 2010 (Note 27)	**132,671**	**406**	**14,408**	**980**	**(140,891)**	**7,574**
Shares issued on conversion of debentures (Note 16)	9,458	–	–	–	–	9,458
Shares and warrants issued for convertible debenture interest (Notes 16 and 17)	505	130	–	–	–	635
Shares issued for accounts payable (Note 16)	54	–	–	–	–	54
Exercise of warrants (Note 16 and 17)	404	(264)	–	–	–	140
Share-based compensation (Note 18)	–	–	1,647	–	–	1,647
Foreign currency translation (Note 27)	–	–	–	(321)	–	(321)
Reclass of foreign currency translation on disposition	–	–	–	(175)	–	(175)
Loss (Note 27)	–	–	–	–	(37,542)	(37,542)
Balance – December 31, 2011	**143,092**	**272**	**16,055**	**484**	**(178,433)**	**(18,530)**
Shares and warrants issued for convertible debenture interest (Notes 16 and 17)	163	183	–	–	–	346
Exercise of warrants (Note 16 and 17)	103	(56)	–	–	–	47
Expiry of warrants (Note 17)	–	(86)	86	–	–	–
Share-based compensation (Note 18)	–	–	1,519	–	–	1,519
Foreign currency translation	–	–	–	1,337	–	1,337
Loss	–	–	–	–	(21,508)	(21,508)
Balance – December 31, 2012	**143,358**	**313**	**17,660**	**1,821**	**(199,941)**	**(36,789)**

Caspian Energy Inc.

Consolidated Statements of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars)

	2012 $	2011 $
Cash flow provided by (used in)		(Restated – Note 27)
Operating activities		
Loss	(21,508)	(37,542)
Adjustments for		
Share-based compensation	1,519	1,647
Depletion and depreciation	751	1,034
Impairment of exploration and evaluation assets	9,796	–
Finance expense	5,205	4,394
Derivative fair value adjustment	(2,111)	(5,754)
Foreign exchange	627	(4,248)
Loss on disposition	–	30,074
Changes non-cash working capital (Note 22)	(5,977)	(7,065)
Net cash used in operating activities	(11,698)	(17,460)
Financing activities		
Issuance of common shares and warrants	47	141
Proceeds from loans payable, net	11,551	20,006
Net cash provided by financing activities	11,598	20,147
Investing activities		
Purchase of property, plant and equipment	(10,899)	(5,909)
Proceeds from sale of property, plant and equipment	2,044	626
Exploration and evaluation expenditures	(3,356)	(8,908)
Decrease in restricted cash	282	60
Increase in taxes payable	45	–
Change in non-cash working capital (Note 22)	9,743	12,406
Net cash used in investing activities	(2,141)	(1,725)
Change in cash and cash equivalents	(2,241)	962
Cash and cash equivalents – beginning of year	2,296	1,334
Cash and cash equivalents – end of year	55	2,296

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

1. Reporting entity and going concern

Caspian Energy Inc. ("Caspian" or the "Company") is a publicly traded company on the TSX Exchange under the stock symbol CEK. Caspian is engaged in the exploration for and development and production of oil and gas in the Republic of Kazakhstan ("ROK"). Its primary operating activities are carried out through its wholly-owned subsidiary, Caspian Energy Ltd. ("Caspian Ltd."). Caspian's registered office is located at 396 11th Avenue S.W., Calgary, Alberta, Canada.

Caspian's principal assets are a 40% interest in Aral Petroleum Capital LLP ("Aral"), held by Caspian Ltd. Through its interest in Aral, the Company has the right to explore and develop certain oil and gas properties in Kazakhstan, known as the North Block, a 2,200 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company also has minor resource interests in Canada.

Aral's exploration and development rights to the North Block were granted pursuant to the terms of an exploration contract between the government of Kazakhstan and Aral (the "Exploration Contract"). The initial three-year term of the Exploration Contract was extended to December 29, 2012. On January 14, 2013, the Exploration was extended for a further two years up until December 29, 2014. This extension was Addendum No.7 to the original Subsurface Use Contract No.1081 ("Contract No. 1081") dated December 29, 2002. The granting of this extension reflects the fact that a new discovery was declared in West Zhagabulak, with the completion of well 316 in mid-2012. This extension allows time for Aral to evaluate this new discovery and to commence exploration activity in other parts of the North block outside of the Zhagabulak area.

Addendum No. 6 to the Exploration Contract was granted State Registration on July 13, 2011. The Competent Body of the ROK agreed to amend the Work Program for the years 2010, 2011 and 2012 by carrying forward the drilling of two exploration wells (estimated cost United States dollars ("USD") 13.95 million) and seismic operations (estimated cost USD 2.04 million) from 2010, 2011 and 2012, with no decrease in expenditures commitment in the extension period. Under the Exploration Agreement with the ROK, the approved work program calls for expenditures of USD 25.8 million in 2011 and USD 22.5 million in 2012. The various requirements of the work program agreed to with the Ministry of Oil and Gas ("MOG") for 2011, both in terms of functions and expenses, have been carried out by Aral. During 2012, Aral's total expenditures for the year exceeded the commitment, reaching a total of USD 39.7 million.

On March 11, 2013, Aral received confirmation from the MOG that the Partnership will be permitted to propose an amendment, which is identified as Addendum No. 8, to Contract No. 1081, For undertaking to increase the annual financial commitment to USD 45.3 million, certain provisions under the Licence have been relaxed. The proposal is currently under review by the MOG and a decision is expected during the second quarter of 2013.

Aral also entered a twenty-five year Production Contract ("Production Contract") for the East Zhagabulak field on July 28, 2010. The Contract stipulates export pricing on approximately 90% of production volumes.

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

Going concern

These consolidated financial statements have been presented on a going concern basis. The Company reported a net loss of $21.5 million (2011 – $37.5) and used funds for operating activities of $11.7 million (2011 – $17.5 million) for the year ended December 31, 2012. The Company had a net working capital deficiency of $66.9 million (2011 – $45.6 million) and a cumulative deficit equal to $199.9 million (2011 – $178.4 million) as at December 31, 2012.

On April 7, 2011, Caspian announced a new agreement that restructured an earlier arrangement with the debenture holders regarding the USD 16 million, 10-per-cent per annum, convertible debentures, which matured on March 2, 2011. It was mutually agreed to restructure the existing debentures as follows:

- Convert 44% of the principal amount plus accrued interest into common shares of Caspian at a price of $0.19 per

common share (this aggregates USD 9.8 million convertible to common shares).

- Amend the existing Debentures to an amount of USD 12.5 million, with a conversion price of $0.28 per common share, a floor price (minimum conversion price) of $0.10 per common share and a 24 -month maturity date.
- Hold interest at 10% per annum, payable in cash quarterly or at the election of the holders in stock at a 5-per-cent discount to the 20-day Volume Weighted Average Price ("VWAP") plus ½ share purchase warrant (two-year life) at a 30-per-cent premium to the 20-day VWAP.
- An aggregate of 49,777,218 common shares were issued on July 8, 2011 in this regard based upon a 5% discount to the market price of the Common Shares of $0.20.

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

On December 29, 2011, the Company sold a 10% interest in Aral to Asia Sixth Energy Resources Limited and its subsidiary Groenzee BV (collectively "Asia Sixth"). The sale of 10% of Aral (the "transaction") equated to a disposition of 20% of Caspian's original 50% interest in Aral. Caspian now holds a 40% interest in Aral, which it operates as a joint venture together with Asia Sixth. In conjunction with the closing of the transaction, Aral executed a facility agreement with Asia Sixth for the provision of USD 80 million for exploration and remedial activity at East Zhagabulak (Note 12(a)(i)), of which approximately USD 60 million has been funded between October 2010 and December 2012. This funding achieves several strategic imperatives including the development of the East Zhagabulak field and the capital required for a sustained exploratory drilling campaign. Finally, it should ensure that Caspian will not have to provide additional funds for the activity in the North Block in the near term.

Asia Sixth also entered into a USD 6 million facility agreement with Caspian to provide advances to Caspian in three, USD 2 million tranches over a two-year period (Note 12(a)(iii)). As at December 31, 2012, the Company had USD 2.15 million of available funds remaining under this facility, of which USD 150,000 was advanced in March 2013.

The Company is a reporting issuer in Canada and as such has certain reporting obligations. Between April 8 and April 12, 2013, Canadian securities regulatory authorities issued cease trade orders pertaining to the trading of the Company's securities until it files its December 31, 2012 audited consolidated financial statements and management discussion and analysis and the regulatory authorities revoke or vary this order. The Company believes that, upon making the above noted filings, it will be in compliance with its regulatory filings and the cease trade orders will be lifted.

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 achieving profitable operating results from its Kazakhstan operations. There are no assurances that these initiatives will be successful.

In August 2012, the Company entered into a performance-based consulting agreement (Note 23(a)) with an experienced petrophysicist for the provision of consulting services in connection with the exploitation, development and completion of eight wells in the ROK.

Asia Six Energy has advised Aral and the Company that it will provide financial aid to Aral when required to avoid possible interruption in Aral's operations. Furthermore and subsequent to December 31, 2012, Asia Sixth committed to Aral that they do not intend to require repayment of the outstanding balances of the current portion of the borrowings for at least 12 months subsequent to April 2013.

Subsequent to December 31, 2012, Aral received USD 2.45 million of loans from Asia Sixth bearing an annual interest rate of 15%.

Subsequent to December 31, 2012, the Company received $100,000 as consideration for certain amendments to the consulting agreement described in Note 23(a).

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") in effect as at December 31, 2012. The consolidated financial statements were authorized for issue by the Board of Directors on April 22, 2013.

(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 5.

(c) Functional and presentation currency

Functional currency is the currency of the primary economic environment in which a company operates.

These consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in finance expense within the consolidated statement of loss and comprehensive loss.

Aral's functional currency is the Kazakhstani Tenge (the "Tenge"). The Company accounts for its interest in Aral using proportionate consolidation. All amounts from Aral included in the Company's consolidated financial statements are recorded in Tenge and converted to CAD. 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. Foreign exchange differences are recognized in other comprehensive income and reclassified to profit or loss upon disposal of the foreign operation.

At December 31, 2012 the principal rate of exchange used for translating foreign currency balances was $1 CAD = Tenge 150.769 (December 31, 2011: $1 CAD = 142.73 Tenge). The average annual principal rate of exchange used for translating foreign currency balances during the year ended December 31, 2012 was $1 CAD = Tenge 146.90 (year ended December 31, 2011: $1 CAD = 146.20 Tenge). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries:

The Company's primary operating activities are carried out through its wholly-owned subsidiary, Caspian Energy Ltd. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Jointly controlled operations and jointly controlled assets:

The Company's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs. In the event of a disposition of a partial interest in a jointly controlled entity that does not result in the loss of joint control, the proportionate amount of gain or loss previously recognised in other comprehensive income in relation to the jointly controlled entity is reclassified to profit or loss. In addition, where the jointly controlled entity is a foreign operation, the proportionate amount of cumulative amount of exchange differences recognized in other comprehensive income of the Company is reclassified to profit or loss.

(iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Financial instruments

All financial instruments are initially recognized at fair value on the consolidated statement 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 and other receivables, restricted cash, trade and other payables, loans payable and convertible debentures. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

<u>Financial assets at fair value through profit or loss</u>

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 statement of loss and comprehensive loss. The Company has designated cash and cash equivalents at fair value through profit or loss.

<u>Other</u>

Other non-derivative financial instruments, such as trade and other receivables, restricted cash, trade and other payables, loans payable and the liability component of 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. Warrants and options do not have readily determinable fair values and therefore require significant management judgment and estimation. The Company uses the Black-Scholes pricing model to estimate the fair value of warrants at the end of each applicable reporting period. Changes in the fair value of these warrants during each reporting period are included in the consolidated statement of loss and comprehensive loss. 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.

The conversion feature of convertible debentures is an embedded derivative as the USD principal amount is 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 component of the convertible debentures. The derivative component is marked-to-market at each reporting date using the Black-Scholes pricing model to estimate the fair value. The liability component accretes up to the principal balance at maturity.

(iii) Share capital:

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

(c) 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. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the statement of financial position date are classified as other non-current assets.

(d) Trade and other receivables

Trade and other receivables, except for taxes prepaid and advances to suppliers, are initially recognized at fair value and subsequently accounted at amortized cost using the effective interest method less provision for impairment of such receivables. Taxes prepaid and advances to suppliers are accounted for at amounts paid. A provision for impairment of trade and other receivables 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 statement of loss and comprehensive loss. The primary factors that the Company considers whether a receivable is impaired is its overdue status.

(e) Inventory

Inventory is recorded at the lower of cost and net realizable value. Costs of inventory and supplies represent purchase cost. Cost of crude oil 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 realizable 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 capitalized to property, plant and equipment when used for renewals and betterments of oil and gas properties or recognized as expenses when used for daily operations. Slow-moving or obsolete inventory items are written-off to the consolidated statement of loss and comprehensive loss.

(f) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

<u>Exploration and evaluation expenditures</u>

Pre-licence costs are recognized in the consolidated statement of loss and comprehensive loss as incurred. Exploration and evaluation ("E&E") expenditures, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a

petroleum or natural gas resource is considered to be determinable when proved or probable reserves are determined to exist. If proved and or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property, plant and equipment. The cost of undeveloped land that expires or any impairment recognized during a period is charged as impairment expense.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash generating units ("CGUs").

Development and production costs

Items of property, plant and equipment, which include oil and gas development and production ("D&P") assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses.

The cost of D&P assets includes: transfers from E&E assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into CGUs for the purpose of impairment testing.

When significant parts of an item of property, plant and equipment, including petroleum and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the consolidated statement of loss and comprehensive loss.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of loss and comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in operating expenses as incurred.

(ii) Depletion and depreciation:

The net carrying value of D&P assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation methods, useful lives and residual values of tangible assets are reviewed at each reporting date.

Depreciation is calculated on a straight-line basis at the following annual rates:

Useful lives in years	
Machinery and equipment	5-10
Vehicles and other	3-14

(g) Impairment

(i) 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.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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 statement 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 the consolidated statement of loss and comprehensive loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (a CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

Fair value less costs 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 costs 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.

Exploration and evaluation assets are allocated to related CGUs (determined by fields) when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment). Accordingly, management evaluates the Aransay, Baktygaryn, Zhagabulak, Zhagabulak South and Itasay-Kuzdasay fields separately for impairment purposes.

Recoverable amounts are estimated for individual assets unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case impairment is evaluated at the cash generating unit ("CGU") level. For the purposes of assessing impairment, property, plant and equipment (specifically oil and gas properties) are grouped on a field-by-field basis. Accordingly, management considers the East Zhagabulak field as a separate CGU.

Impairment losses recognized in prior years are assessed at each reporting date to determine whether facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. Impairment reversals are recognized in the consolidated statement of loss and comprehensive loss.

(h) 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 liability:

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

The Company's decommissioning liability is measured at the present value of management's best estimate of expenditure required to settle the future obligation at the statement of financial position date. Subsequent to the initial measurement, the liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the liability. 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 liability are charged against the provision to the extent the provision was established.

(i) 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.

(j) Value added tax

Value added tax ("VAT") related to sales is payable to the tax authorities when goods are shipped or services are rendered. Purchase VAT is reclaimable, except for VAT on vehicles, against sales VAT upon the receipt of a tax invoice from a supplier. Tax legislation applicable to the Company allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchase transactions, which have not been settled at the reporting date, is recognized in the consolidated statement of financial position on a net basis.

(k) 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.

(l) Revenue recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer based on volumes delivered to customers at contractual delivery points and rates. Revenue is shown net of value-added tax, discounts and after eliminating sales within the Company.

(m) Finance income and expenses

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

(n) 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.

(o) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the consolidated statement of loss and comprehensive 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 the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Share-based compensation

The Company grants 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.

(q) Per share amounts

Basic earnings 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 income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and directors, warrants and convertible debentures. The calculation assumes the proceeds on exercise of options are used to repurchase shares at the current market price.

(r) New standards and interpretations not yet adopted

As of January 1, 2013, the Company will be required to adopt the following new and amended standards as issued by the IASB:

- IFRS 10, "Consolidated Financial Statements" – In May 2011, the IASB issued IFRS 10 which is the IASB's project to replace Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27, "Consolidated and Separate Financial Statements". The new standard eliminates the current risk and rewards approach and established control as the single basis for determining the consolidation of an entity.
- IFRS 11, "Joint Arrangements" – in May 2011, the IASB issued IFRS 11 which replaces IAS 31, "Interest in Joint Ventures". IFRS 11 redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to equity accounted. Under IAS 31, joint ventures could be proportionately accounted.
- IFRS 12, "Disclosure of Interests in Other Entities" – In May 2011, the IASB issued IFRS 12 which outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements.
- IFRS 13, "Fair Value Measurement" – In May 2011, the IASB issued IFRS 13 which provides a common definition of fair value, establishes a framework for measuring fair value under IFRS and enhances the disclosures required for fair value measurements. The standard applies where fair value measurements are required and does not require new fair value measurements.
- IAS 1, "Presentation of Financial Statements" – In June 2011, the IASB amended IAS 1 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged.

As of January 1, 2014, the Company will be required to adopt the following amendments as issued by the IASB:

- IFRS 10, "Consolidated Financial Statements" – In October 2012, the IASB issued amendments to IFRS 10 to provide an exception to consolidation for investment entities. An entity that meets the definition of an investment entity is required to measure its subsidiaries at fair value through profit and loss in accordance with IFRS 9, "Financial Instruments" or IAS 39, "Financial Instruments: Recognition and Measurement.
- IFRS 12, "Disclosure of Interests in Other Entities" – In October 2012, the IASB issued amendments to IFRS 12 which added disclosure requirements for investment entities.

- IAS 27, "Separate Financial Statements" – In October 2012, the IASB issued amendments to IAS 27 to require an investment entity to measure its investments in subsidiaries at fair value through profit or loss when it presents separate financial statements.

As of January 1, 2015, the Company will be required to adopt IFRS 9, "Financial Instruments". The IASB issued IFRS 9, which is the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial asset and liabilities with a single model that has only two classification categories: amortized cost and fair value.

The Company is evaluating the impact that the above standards and amendments may have on its results of operations and financial position.

4. 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 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 has secured the services of an experienced petrophysicist in connection with the exploitation, development and completion of eight wells in the ROK.
- Asia Six Energy has advised Aral and the Company that it will provide financial aid to Aral when required to avoid possible interruption in Aral's operations.
- Subsequent to December 31, 2012, Aral received USD 2.45 million of loans from Asia Sixth which will be used to fund exploration and development activities.
- Asia Sixth has committed to Aral that they do not intend to require repayment of the outstanding balances of the current portion of the borrowings for at least 12 months subsequent to April 2013.
- As at December 31, 2012, the Company had USD 2.15 million of available funds remaining under a credit facility with Asia Sixth, of which USD 150,000 was advanced in March 2013.
- Subsequent to December 31, 2012, the Company received $100,000 as consideration for certain amendments to the consulting agreement described in Note 23(a) which will be used to fund on-going general and administrative expenses.

(ii) Proportionate consolidation

Management applied judgment in its assessment of the appropriate method of accounting, the equity method or proportionate consolidation, for its investment in Aral.

Based on management's judgment, the proportionate consolidation method is appropriate based on the following:

- Aral's Charter represents a contractual arrangement between the shareholders of Aral and establishes joint

control over the operations of Aral.

- Aral's Charter requires unanimous consent of the shareholders with respect to consequential decisions.
- The Company considers decisions with respect to Aral's operations, including exploration and development activities, to be consequential and therefore require the Company's consent.
- The Company has consistently participated in decisions with respect to Aral's operations which is evidence of the Company's joint control over Aral.

(iii) CGUs

Management makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations. Based on this assessment, the Company's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.

(iv) Impairment of exploration and evaluation assets and oil and gas properties

Management uses judgment to assess the existence of impairment indicators such as events or changes in circumstances that may indicate the carrying amount of exploration and evaluation assets and oil and gas properties may not be recoverable. Management's judgment is that production life of proved reserves will not exceed the expiry date under subsurface use contracts.

The occurrence of certain dry wells and wells for which there is no evidence of production potential were assessed as indicators of potential impairment of exploration and evaluation assets.

Continuing losses from oil and gas operations were assessed by management as indicators of potential impairment of and oil and gas properties.

(v) Decommissioning liabilities

Management uses judgment to assess the Company's legal obligations to decommission its oil and gas properties and restore property sites after closure. The Company's production activity is required to be in compliance with various environmental laws and regulations in the ROK. The assessment of decommissioning liabilities is based on management's understanding of the current legal requirements in license agreement terms and internal engineering valuations.

(vi) Loan impairment

Management applied judgment in its assessment that the carrying amount of the loan receivable due from Aral is impaired as collectability of principal and interest are uncertain until such time as Aral achieves profitable operating results from its Kazakhstan operations. As at December 31, 2012, the loan from Aral was 100% provided for (2011 – 100%) and the amount of impairment offsetting interest income recorded in the 2012 consolidated statement of loss and comprehensive loss was $4.4 million (2011 – $4.1 million).

(vii) 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.

(viii) 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.

Management has made the following judgments in assessing contingencies:

- Management's interpretation of the relevant legislation is appropriate and that the Company's tax, currency legislation and customs positions will be sustained (Note 23(c)).
- Aral's operations are covered by the Exploration Contract, not the Production Contract, and therefore Aral is not subject to certain royalties (Note 23(d)); is not required to sell 20% of its crude oil to the domestic market (Note 23(e)); and is not subject to training obligations (Note 23(g)).
- Aral's non-compliance with the Liquidation Fund requirement of the Exploration Contract at December 31, 2012 will not lead to significant financial statement adjustments as Aral has taken steps to replenish the fund and reinstate its compliance (Note 23(f)).

(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) Decommissioning liabilities

Provision is made, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past oil and gas activities. The provision for site restoration is estimated based on Aral's interpretation of current environmental legislation in the Republic of Kazakhstan and Aral's related program for liquidation based on the feasibility study and engineering research in accordance with the existing rehabilitation standards and techniques. Decommissioning liabilities are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation. In determining the fair value of decommissioning liabilities, assumptions and estimates are made in relation to the discount rate, expected costs of reclamation and the expected timing of such costs.

(ii) Impairment of exploration and evaluation assets

If exploration and evaluation assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value in use determined as the amount of estimated discounted future cash flows. Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand, product margins, the expected future production volumes and the likelihood of commercial discovery on the licenced territories. The impairment review and calculations are based on assumptions that are consistent with the Company's business plan.

(iii) Impairment of oil and gas properties

If oil and gas assets are determined to be impaired the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value in use determined as the amount of estimated discounted future cash flows. Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand, product margins and the expected future production volumes. The impairment review and calculations are based on assumptions that are consistent with the Company's business plan.

The Company's reserve reports, prepared by third party consultants, are used to calculate the discounted future cash flows and assess the recoverability of the carrying value of property, plant and equipment.

Principal assumptions having significant impact on the projected future cash flows from oil reserves are: the discount rate of 10% (December 31, 2011 – 21.97%) and the forecast oil price of USD 87 (December 31, 2011 – USD 90).

Given the nature of the current global economic environment such assumptions and estimates related to future

cash flows and the discount rate ultimately have a high degree of uncertainty associated with them. Consequently, assumptions, other than those used by management, of equal validity could give rise to materially different results.

(iv) Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Company's investment decision-making process. They are also an important element in testing for impairment.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as depletion and depreciation charges, and provision for decommissioning liabilities) that are based on proved reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Changes to the Company's estimates of proved reserves also affect the amount of depletion and depreciation recorded in the Company's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved reserves will increase depletion and depreciation charges (assuming constant production) and reduce income.

Proved reserve estimates of the Company as of December 31, 2012 and 2011 were based on the reports prepared by McDaniels & Associates Consultants Ltd., independent engineering consultants.

(v) Stock options, 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 stock options, warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield and expected term.

(vi) Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty.

(vii) Contingencies

When contingencies exist, management estimates the related financial impact to the Company of the possible outcomes of one or more future events. See Note 23.

5. 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 (Note 13) has been measured using level 3 inputs.

(a) Cash and cash equivalents, trade and other receivables, trade and other payables and loans payable

The fair value of cash and cash equivalents, trade and other receivables, trade and other payables and 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, 2012 and 2011, the fair value of these balances approximated their carrying value.

(b) Convertible debentures

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

(c) Stock options, warrants and derivative financial instruments

The fair values of stock options 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 bonds).

The Black-Scholes pricing model calculations for 2012 and 2011 were based on the following significant assumptions:

	Stock options Note 18		Warrants Note 17	
	2012	2011	2012	2011
Risk-free interest rate	1.47%	2.30%	1.45%	1.7%
Expected volatility range	178 – 182 %	164%	133 – 199%	112 – 210%
Expected life	5 years	5 years	2 years	2 years
Forfeiture rate	0%	0%	0%	0%
Dividends	0%	0%	0%	0%

6. Joint interest in Aral

On February 23, 2010, the Company entered into a Sale and Purchase Agreement (the "Agreement") with AsiaStar Petroleum Limited ("AsiaStar") to sell 20% of its 50% interest in Aral which it operated as a joint venture with Frasan Wood B.V. ("Frasan") which held the remaining 50% interest in Aral. Pursuant to the Agreement, Frasan would also sell its 50% interest to AsiaStar resulting in AsiaStar holding a 60% interest in Aral and Caspian holding a 40% interest in Aral.

In October 2010, AsiaStar Petroleum Limited was replaced by Asia Sixth Energy Resources Limited ("Asia Sixth") as the party to all agreements and contracts regarding this transaction.

Caspian sold a 10% interest in Aral to Asia Sixth for consideration of $1 and:

- the undertaking by Asia Sixth to obtain sources of financing for Aral's capital expenditures to the cumulative threshold of USD 80 million for further exploration and development of the North Block;
- a facility agreement (the "Facility Agreement") between Asia Sixth and Caspian to advance up to USD 6 million in loans to Caspian in three, USD 2 million tranches over a two-year period. These loans will have a ten-year term, and will bear interest at a rate of 10% per annum during the first five years and 18% per annum during the second five years. Caspian shall repay the loans and pay accrued interest (a) on each date on which Caspian receives any dividends from Aral and (b) on each date on which the Caspian receives any proceeds from any disposal of any of its shares in Aral. Payments will be applied first towards payment of any accrued interest on the loans and secondly towards payment of any principal amount outstanding; and
- the assignment to Asia Sixth of 60% of Caspian's USD 101.4 million loan receivable due from Aral.

The Agreement was subject to a number of conditions to be satisfied in order for the transaction to close, including the receipt of all regulatory approvals including without limitation the approval of the Government of ROK. The transaction closed on December 29, 2011. In connection with the disposition of a 10% interest in Aral, the Company recognized a $30 million loss in the 2011 consolidated statement of loss and comprehensive loss.

As at December 31, 2012 and 2011, the Company held a 40% interest in Aral which is proportionately consolidated in these consolidated financial statements. As at December 31, 2012, USD 3.8 million (2011 – USD 2 million) had been advanced to the Company under the Facility Agreement (Note 12).

7. Cash and cash equivalents

	2012	2011
Cash in CAD	15	145
Cash in USD	4	2,098
Cash in GBP	–	10
Cash in KZT	36	43
	55	2,296

8. Inventory

	2012	2011
Materials	709	987
Provision for obsolete stock	(169)	–
Materials	540	987

During the year ended December 31, 2012, the Company recognized $0.8 million (2011 – $1.5 million) of inventory in operating expenses.

9. Restricted cash

Under the terms of the Exploration Contract, Aral has an obligation to create a fund of 1% of the capital cost of exploration ("the Liquidation Fund") and deposit cash in a restricted bank account. The Company's share of this account balance at December 31, 2012 and 2011 was USD nil and USD 282,000, respectively, for which Canadian dollars approximated USD. The Liquidation Fund is intended to be used to finance the cost of restoring the licence area upon expiration of the Exploration Contract and the Production Contract.

In 2012, the restricted cash balance was used by Aral to pay the settlement amount of legal dispute with a drilling subcontractor (Note 12(a)(iv)). Therefore, as of December 31, 2012, Aral was not in compliance with the contribution requirements of the Liquidation Fund (Note 23(e)).

In March 2013, Aral made 71,175 thousand Tenge (USD 474,500) of payments to the restricted cash balance and is planning to refill the restricted cash balance during the year 2013.

Aral also had a security deposit for foreign personnel for which the Company's share at December 31, 2012 and 2011 was USD 8,000.

10. Exploration and evaluation assets

Movements in the carrying amount of exploration and evaluation assets were as follows:

Balance, December 31, 2010	**29,448**
Additions	6,511
Disposition (Note 6)	(7,876)
Revisions to decommissioning liability	35
Foreign currency translation	989
Balance, at December 31, 2011	**29,107**
Additions	3,356
Impairment	(9,796)
Revisions to decommissioning liability	–
Foreign currency translation	(1,429)
Balance, December 31, 2012	**21,238**

As at December 31, 2012, E&E assets include intangible assets in the amount of $4.9 million (2011 – $4.9 million) related to geological and geophysical costs, insurance of oil operations and regulatory fees and reimbursement of government costs. The North Block now constitutes 2,200 square kilometres.

During 2012, the Company recognized $9.8 million (2011 – $nil) of impairment related to the exploration and evaluation costs of certain dry wells and wells for which there is no evidence of production potential.

11. Property, plant and equipment

Cost	Other assets	Petroleum and natural gas assets	Total
December 31, 2010	**635**	**13,396**	**14,031**
Additions	3	5,711	5,714
Transfers	(4)	(615)	(619)
Disposition (Note 6)	(130)	(3,846)	(3,976)
Foreign currency translation	37	435	472
December 31, 2011	**541**	**15,081**	**15,622**
Additions	66	10,940	11,006
Transfers	–	(122)	(122)
Disposition	(37)	(2,107)	(2,144)
Foreign currency translation	(28)	(819)	(847)
December 31, 2012	**542**	**22,973**	**23,515**
Accumulated depletion and depreciation			
December 31, 2010	**341**	**8,288**	**8,629**
Depreciation and depletion	63	971	1,034
Disposition (Note 6)	(81)	(1,971)	(2,052)
Foreign currency translation	13	592	605
December 31, 2011	**336**	**7,880**	**8,216**
Depreciation and depletion	50	701	751
Disposition	(34)	(67)	(101)
Foreign currency translation	(18)	(437)	(455)
December 31, 2012	**334**	**8,077**	**8,411**
Carrying amount			
December 31, 2011	205	7,201	7,406
December 31, 2012	208	14,896	15,104

Continuing losses from operations have been assessed by management as indicators of potential impairment of oil and gas properties and, accordingly, as at December 31, 2012, management conducted an impairment test of oil and gas properties based on fair value less cost to sell calculations using the following commodity price estimates:

	WTI Crude USD/bbl
2013	92.50
2014	92.50
2015	93.60
2016	95.50
2017	97.40
2018	99.40
2019	101.40
2020	103.40
2021	105.40
2022	107.60
Thereafter (1)	2%

(1) Percentage change of 2.0% represents the change in future prices each year after 2022 to the end of the reserve life.

The impairment tests were primarily based on the net present value of cash flows from oil reserves of each CGU at a discount rate of 10%. Based on management's assessment, the Company's CGUs were not impaired in 2012 or 2011.

Neither a one per cent increase in the assumed after tax discount rate or five per cent decrease in the forward commodity price estimate would result in any impairment in 2012 or 2011.

12. Loans payable

	2012	**2011**
Current portion		
Asia Sixth (a)(i)	3,768	2,977
Asia Sixth (a)(ii)	33,159	31,349
Asia Credit Bank (b)	34	34
Emir Oil (c)	389	178
	37,350	34,538
Long-term portion		
Asia Sixth (a) (ii)	4,429	–
Asia Sixth (a)(iii)	2,196	2,041
Asia Sixth (a)(iv)	1,838	–
Asia Credit Bank (b)	21	59
	8,484	2,100
	45,834	36,638

(a) Asia Sixth

As at December 31, 2012 and 2011, Asia Sixth held a 60% ownership interest in Aral and is therefore considered a related party.

(i) On October 22, 2010, Aral signed a four-sided facility agreement (the "Facility Agreement") where Caspian Energy Ltd. and Azden Management Limited acted as "Guarantors" and Asia Sixth acted as lender. Under the Facility Agreement, Asia Sixth made available a USD term loan facility in aggregate amount equal to the commitment. The Facility Agreement was secured a pledge of Aral's bank accounts and by the guarantors until the December 29, 2011 closing date of the Sale and Purchase Agreement described in Note 6.

As of December 31, 2012, Aral had received USD 7.75 million (2011 – USD 6.7 million), bearing a 15% annual interest rate, for which the Company's proportionate share at December 31, 2012 is $3.77 million (2011 – $2.98 million).

(ii) In connection with the Company's sale of a 10% interest in Aral to Asia Sixth, the Company assigned 60% of the USD 101.4 million loan receivable bearing an annual interest rate of 10% from Aral to Asia Sixth and loans payable by Aral to Azden Management Limited were assigned 60% to Asia Sixth and 40% to the Company as described in Note 6. As at December 31, 2012, the Company's proportionate share is $37.6 million (2011 – $31.3 million), of which $33.2 million (2011 – $31.3 million) is classified as a current liability and $4.4 million (2011 – $nil) is classified as long-term.

(iii) In connection with the Company's sale of a 10% interest in Aral to Asia Sixth (Note 6), the Company entered into a facility agreement with Asia Sixth pursuant to which Asia Sixth will advance up to USD 6 million in loans to Caspian in three, USD 2 million tranches over a two-year period. These loans will have a ten-year term, and will bear interest at a rate of 10% per annum during the first five years and 18% per annum during the second five years. In December 2011, the Company received the first USD 2 million tranche. During 2012, the Asia Sixth provided the Company with a draw against the second tranche as described below in (iv).

(iv) Aral had a dispute with a drilling subcontractor since 2007 in relation to a mechanical failure at the drilling site that resulted in the loss of a well and the re-drilling of part of the well (the "Nabors Drilling litigation"). Aral considered the contractor to be responsible for the failure and a lawsuit ensued. On August 8, 2012, a decision of the supervisory board of Supreme Court of Kazakhstan was made in favour of the subcontractor pursuant to which the subcontractor's USD 3.5 million was approved and awarded. The Company had indemnified Aral for half of the awarded claim. As at December 31, 2012, the Company was indebted to Asia Sixth in the amount of USD 1.8 million comprised of a USD 1.7 million advance plus interest at a rate of 10% per annum.

The carrying amount of the Company's borrowings from Asia Sixth approximates its fair value as of December 31, 2012 and 2011 as they are short term in nature and at commercial rates available to the Company.

(b) Asia Credit Bank

During the year ended December 31, 2011, Aral had transactions with Asia Credit Bank, an entity under common control of Azden Management Limited, a partner of Aral until December 2011.

On August 24, 2009, Aral signed a loan agreement with Asia Credit Bank. The credit line amount is Tenge 90 million for 5 years and bears annual interest at 18%. The credit line is secured by the pledge of deposits with the value of USD 217,000 and EUR 413,000. During 2012, there were no payments or additional amount drawn on the loan (2011 – Tenge 12 million). The credit line expires and is expected to be repaid in full by September 4, 2014. The carrying amount of Aral's borrowing from Asia Credit Bank approximates its fair value as of December 31, 2012 and 2011.

(c) Emir Oil

Emir Oil is an unrelated third party.

In 2011, Aral received a short-term non-interest bearing loan from Emir Oil which was repaid in full on January 9, 2012. In May and June 2012, Aral received new short-term non-interest bearing loans from Emir Oil. As at December 31, 2012, the loan was discounted according to IAS 39, "Financial Instruments: Recognition and Measurement". The carrying amount of Aral's borrowing from Emir Oil approximates its fair value as of December 31, 2012 and 2011.

13. Convertible debentures

On March 1, 2006, the Company issued USD 16 million of 10% per annum convertible debentures (the "Debentures") with a maturity date of March 2, 2011 and secured with Caspian shares. On December 1, 2009, amendments to the terms of the Debentures were approved by the Company's shareholders following negotiations with the holders of the Debentures to identify alternative means by which interest payments owing under the Debentures could be satisfied in lieu of cash. On April 7, 2011, the Company concluded an arrangement with its Debenture holders with respect to fulfilment of the March 2, 2011 maturity date.

Effective June 2, 2011, the Debentures were restructured as follows:

- 44% of the principal plus accrued interest was converted into common shares of the Company at the price of CAD $0.19 per common share (this aggregates $9.46 million (USD 9.79 million) convertible to 49,777,218 common shares).
- The remaining Debentures were amended to an amount of USD 12,460,958 maturing on June 2, 2013 and convertible at a price of CAD $0.28 per common share (with a minimum conversion price of CAD $0.10 per common share in the event of future equity financings by the Company at a price lower than CAD $0.28 per common share, thereby reducing the conversion price to the price of the equity financing).
- Interest unchanged at 10% per annum, payable in cash quarterly, or at the election of the Debenture holders in common shares of the Company at a 5% discount to 20-day volume weighted-average price plus ½ of a share purchase warrant exercisable at a 30% premium to VWAP for a period two years from the date of issuance.

On June 2, 2011, pursuant to the restructuring of the Debentures, the embedded derivative component of the $12.2 million (USD 12.5 million) principal amount of Debentures was determined to be $7.7 million (USD 7.9 million) with the remaining $4.4 million (USD 4.5 million) attributed to the liability component.

A continuity of the convertible debentures is as follows:

	Face value	Total	Liability component	Derivative liability of conversion feature
Balance, December 31, 2010		**21,621**	**21,621**	**–**
Interest and accretion		835	835	–
Foreign exchange		(841)	(841)	–
Conversion – April 7, 2011		(9,458)	(9,458)	–
Balance, June 2, 2011	USD 12,461	12,157	12,157	–
Derivative component		–	(7,722)	7,722
Interest and accretion		2,055	2,055	–
Fair value adjustment		(5,754)	–	(5,754)
Settlement of accrued interest		(635)	(635)	–
Foreign exchange		827	432	395
Balance, December 31, 2011		**8,650**	**6,287**	**2,363**
Interest and accretion		5,245	5,245	–
Fair value adjustment		(2,111)	–	(2,111)
Settlement of accrued interest		(405)	(405)	–
Foreign exchange		(160)	(116)	(44)
Balance, December 31, 2012		**11,219**	**11,011**	**208**

As at December 31, 2012, the fair value of the derivative component was determined to be $207,515 (USD 208,223) (2011 – $2.4 million (USD 2.3 million)).

The fair value of the derivative component was estimated using the Black-Scholes pricing model based on the following assumptions:

	2012	**2011**
Risk-free interest rate	1.14%	0.95%
Expected volatility	169%	130%
Expected life	0.4 years	1.4 years
Dividends	–	–

14. Decommissioning liability

The Company's decommissioning liability is based on the cost of dismantling oil and gas production facilities, including abandonment and restoration costs and engineering estimates for the anticipated method and extent of site restoration in accordance with current legislation, industry practices and costs. In accordance with the Exploration Contract and the Production Contract, Aral has a legal obligation to decommission its oil and gas properties and restore its site after its closure. Uncertainties in the estimates of such costs include the potential changes in regulatory requirements, alternative liquidation and restoration of disturbed land plots and level of discount and inflation rates.

The total undiscounted amount of estimated cash flows required to settle the decommissioning liability are approximately $367,000 (2011 – $341,000) which will be incurred over the next 23 years, between 2014 and 2035. A risk-free rate of 7.0% (2011 – 7.3%) and an inflation rate of 5.0% (2011 – 5.9%) were used to calculated the net present value of the decommissioning liability.

Movements in the decommissioning liability are as follows:

Balance, December 31, 2010	**146**
Additions and revisions	122
Accretion	38
Disposition (Note 6)	(63)
Foreign currency translation	6
Balance, December 31, 2011	**249**
Additions and revisions	(15)
Accretion	18
Foreign currency translation	(14)
Balance, December 31, 2012	**238**

15. Income taxes

The provision for income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The Company has provided for certain taxes based upon statutory regulations of Kazakhstan. The Company is subject to permanent tax differences due to the fact that certain expenses are not deductible for income tax purposes under Kazakhstani laws. See Note 23 with respect to Kazakhstan tax legislation.

The provision for taxes differs from that computed using combined Canadian federal and provincial statutory corporate tax rates as follows:

	2012 $	2011 $
Loss before income taxes	(21,508)	(37,542)
Expected recovery at statutory tax rate of 25% (2011 – 26.5%)	(5,377)	(9,949)
Losses for which no benefit is being recognized	4,242	2,157
Non-deductible share-based compensation	380	436
Non-deductible interest on convertible debt	991	372
Non-deductible loss on disposition	–	7,970
Other (non-taxable) non-deductible items	(720)	(528)
Change in corporate tax rate	484	(458)
	–	–

The tax effects on major temporary differences that give rise to the deferred tax asset are as follows:

	2012 $	2011 $
Deferred tax assets (liabilities)		
Tax losses available for carry forward	21,632	20,793
Tax reserves	(6,395)	(6,017)
Derivative liability	(583)	(1,305)
Property, plant and equipment and exploration and evaluation assets	2,536	(523)
	17,190	12,948
Deferred tax asset not recognized	(17,190)	(12,948)
	–	–

As at December 31, 2012, the Company had estimated Canadian tax pools of $45.1 million (2011 – $42 million as per 2011 tax filings) available for deduction against future Canadian taxable income which expire between 2014 and 2032. As at December 31, 2012, the Company had estimated Kazakhstan tax loss carryforwards of Tenge 4,755 million (2011 – Tenge 4,409 million) or approximately $12.6 million (2011 - $12.4 million) available for deduction against future Kazakhstan taxable income which expire between 2013 and 2021.

16. Share capital

(a) Authorized

Unlimited number of voting common shares, without stated par value

(b) Issued

	Number of shares	Amount $
Balance, December 31, 2010	**166,136,518**	**132,671**
Exercise of share purchase warrants (i)	2,406,787	404
Convertible debenture conversion (ii)	49,777,218	9,458
Convertible debenture interest obligation (iii)	4,472,557	505
Settlement of indebtedness (iv)	500,000	54
Balance, December 31, 2011	**223,293,080**	**143,092**
Exercise of share purchase warrants (v)	567,999	103
Convertible debenture interest obligation (vi)	3,095,588	163
Balance, December 31, 2012	**226,956,667**	**143,358**

(i) During 2011, the Company issued 2,406,787 common shares on the exercise of 2,406,787 share purchase warrants at a weighted average exercise price of $0.06 for gross proceeds of $141,330 and a pro-rata share of warrant fair value in the amount of $263,558.

(ii) On July 8, 2011, 49,777,218 shares valued at $0.19 per share, were issued to the holders of the Convertible Debentures to retire 44% of their accumulated principal plus interest balance.

(iii) During 2011, the Company issued 4,472,557 common shares at a weighted average price of $0.11 per share plus 719,044 share purchase warrants with an exercise price of $0.289 and 1,517,236 share purchase warrants with an exercise price of $0.146 as settlement of convertible debenture interest. See Note 13. The common shares were valued at the trading price at the time of issue.

(iv) In November 2011, the Company issued 500,000 common shares at $0.11 per share as settlement of $53,771 of legal fees. The common shares were valued at the trading price at the time of issue.

(v) On January 5, 2012, the Company issued 567,999 common shares on the exercise of 567,999 share purchase warrants at a weighted average exercise price of $0.08 for gross proceeds of $46,684 and a pro-rata share of warrant fair value in the amount of $56,345.

(vi) During 2012, the Company issued 3,095,588 common shares at a weighted average price of $0.053 per share plus 836,007 share purchase warrants with an exercise price of $0.191, 318,182 share purchase warrants with an exercise price of $0.184 and 393,606 share purchase warrants with an exercise price of $0.141 as settlement of convertible debenture interest. See Note 13. The common shares were valued at the trading price at the time of issue.

17. Warrants

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

	Number of warrants	Weighted average exercise price	Amount
Balance, December 31, 2010	**12,203,542**	**$ 0.345**	**$ 406**
Exercised (Note 16(b)(i))	(2,406,787)	0.059	(264)
Issued (Note 16(b)(iii))	2,236,280	0.192	130
Expired	(8,694,711)	0.450	–
Balance, December 31, 2011	**3,338,324**	**0.174**	**272**
Exercised (Note 16(b)(v))	(567,999)	0.082	(56)
Issued (Note 16(b)(vi))	1,547,795	0.177	183
Expired	(534,045)	0.194	(86)
Balance, December 31, 2012	**3,784,075**	**$ 0.186**	**$ 313**

The fair value of warrants issued in 2012 and 2011 was determined using the Black-Scholes pricing model as disclosed in Note 5(c).

Information about warrants as at December 31, 2012 is summarized in the following table:

Exercise price	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
$ 0.141	393,606	$ 0.141	1.75
$ 0.146	1,517,236	0.146	0.83
$ 0.184	318,182	0.184	1.52
$ 0.191	836,007	0.191	1.29
$ 0.289	719,044	0.289	0.61
	3,784,075	$ 0.186	1.04

18. Share-based compensation

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.

On June 24, 2011, the Company granted 9,772,213 options exercisable at $0.18 per share to directors, officers and consultants of the Company. The options vested immediately and expire on June 24, 2016. The fair value of the options was estimated to be $1,647,000 using the Black-Scholes pricing model which was recognized as share-based compensation in the 2011 consolidated statement of loss and comprehensive loss.

On April 9, 2012, the Company granted 6,000,000 options exercisable at $0.19 per share to directors, officers and consultants of the Company. The options vested immediately, and expire on April 9, 2017. The fair value of the options was estimated to be $1,088,000 using the Black-Scholes pricing model which was recognized as share-based compensation in the 2012 consolidated statement of loss and comprehensive loss.

On November 8, 2012, the Company granted 5,000,000 options exercisable at $0.095 per share to directors, officers and consultants of the Company. The options vested immediately, and expire on November 8, 2017. The fair value of the options was estimated to be $431,000 using the Black-Scholes pricing model which was recognized as share-based

compensation in the 2012 consolidated statement of loss and comprehensive loss.

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

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening	17,110,585	$ 0.30	8,981,805	$ 0.60
Granted	11,000,000	0.15	9,772,213	0.18
Expired	(1,500,000)	0.88	–	–
Cancelled	(4,818,964)	0.35	(1,643,433)	1.22
Closing	21,791,621	$ 0.175	17,110,585	$ 0.30
Exercisable	21,791,621	$ 0.175	17,110,585	$ 0.30

Information about options outstanding and exercisable as at December 31, 2012 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
$ 0.095	5,000,000	$ 0.095	4.86	5,000,000
$ 0.18	7,441,621	0.18	3.48	7,441,621
$ 0.19	6,000,000	0.19	4.27	6,000,000
$ 0.20	2,150,000	0.20	2.42	2,150,000
$ 0.36	1,200,000	0.36	0.48	1,200,000
	21,791,621	$ 0.175	3.75	21,791,621

19. Per share amounts

	2012	**2011**
Net loss for the year	$ (21,508)	$ (37,542)
Weighted average number of shares (in thousands) – basic:		
Issued common shares at January 1	223,293	166,137
Effect of shares issued during the year	2,241	25,208
	225,534	191,345
Net loss per share – basic and diluted	$ (0.10)	$ (0.20)

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

20. Finance expense

	2012 $	2011 $
Net foreign exchange loss	(1,112)	(854)
Interest on convertible debentures	(1,282)	(1,487)
Accretion of convertible debentures	(3,963)	(1,403)
Interest expense on loans payable	(1,386)	(1,419)
Accretion of decommissioning liabilities	(18)	(38)
Net finance expense	**(7,761)**	**(5,201)**

21. Directors and key management remuneration

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

	2012 $	2011 $
Salaries	1,028	811
Share-based compensation	1,519	1,647
	2,547	**2,458**

22. Supplemental cash flow disclosure

(a) Change in non-cash working capital:

	2012 $	2011 $
Trade and other receivables	(695)	(307)
Inventory	447	(259)
VAT receivable	(1,236)	(1,161)
Trade and other payables	5,250	11,076
Adjustment due to disposition of 10% interest in Aral	–	(4,008)
	3,766	5,341

The change in non-cash working capital has been allocated to the following activities:

	2012 $	2011 $
Operating	(5,977)	(7,065)
Investing	9,743	12,406
	3,766	5,341

(b) Interest and taxes:

During 2012, the Company paid $1,040,000 (2011 – $25,000) of interest in cash and settled $346,000 (2011 – $635,000) of interest through the issuance of common shares and warrants.

The Company did not pay any income taxes in 2012 or 2011.

(c) Settlement of liabilities:

During 2012, the Company settled $nil (2011 – $54,000) of accounts payable through the issuance of common shares. In 2011, the Company converted $9,457,671 principal amount and accrued interest of convertible debentures into common shares.

23. Commitments, contingencies and operating risks

(a) Commitment to issue common 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 wells in the ROK. 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, the Company has agreed to issue the following common 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 Agreement has a barrels of oil per day rate ("Bopd Rate") in excess of 2,000, the Company will issue 2.5 million common shares in respect of such well (the "Consideration Shares"). The maximum number of Consideration Shares issuable pursuant to the Consulting Agreement is 20 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 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 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 $2.50 for a period of not less than 20 trading days, 500,000 common shares;
  (b) if at any time during the period of four years commencing on the date of the 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 $5.00 for a period of not less than 20 trading days, 1,500,000 common shares; and
  (c) if at any time during the period of four years commencing on the date of the 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 $10.00 for a period of not less than 20 trading days, 4,000,000 common shares.

  The maximum number of Bonus Shares issuable pursuant to the Agreement is 6,000,000.

If all performance criteria are met, the Consultant would be entitled to a maximum of 26 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 share Consideration Shares or Bonus Shares became payable.

(b) Operating environment: The Company's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Company's assets and operations could be at risk in the event of negative changes in the political and business environment.

(c) Taxation: Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax

legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, tax authorities may challenge transactions and the Company may be assessed additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for five years.

Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at December 31, 2012 and 2011, no provision for potential tax liabilities has been recorded.

(d) **Royalties**: In accordance with Kazakhstani tax legislation applicable to the Company before January 1, 2009, Aral should have paid royalties in relation to the oil produced. However, the Company believed that, in accordance with the Exploration Contract, the test production phase was not subject to royalties and that Aral would be liable to pay royalties only at the experimental-industrial phase or when the Production Contract is signed. Should tax authorities consider Aral's position as incorrect, additional taxes and fines in the amount of CAD 1.2 million may be imposed relating to the 2007 and 2008 years.

(e) **Export sales**: According to the Exploration Contract, Aral is required to sell 100% of oil extracted during the exploration period for refining in Kazakhstan. Commencing September 2005, Aral applied to the Ministry of Energy and Mineral Resources ("Ministry") on a monthly basis to arrange for its production for the succeeding month to be included in the export quota for transportation by rail. Should the government authorities determine that export quotas received by Aral were in violation of Exploration Contract terms, Aral may be subject to fines and penalties which cannot be estimated reliably, and/or termination of the Exploration Contract.

During 2012 and previous years, Aral's export sales related to the crude oil extracted only from East Zhagabulak. According to Production Contract Aral is obliged to sell 20% of produced crude oil on domestic market. The Company believes that the Production Contract is not enforced, as the required technical documentation is not approved by the government and thus the Exploration Contract continues to be valid for the East Zhagabulak oilfield.

(f) **Minimum Working Program**: During 2009 Aral signed an addendum to the Exploration Contract which, among other changes, stipulated USD 21.4 million Work Program commitments for 2009 and USD 50.4 million for the remaining three years with drilling of an additional eight wells until December 29, 2012. However, as of December 31, 2009 Aral's actual expenditures were significantly less than the amounts committed for 2009. Following correspondence with the government authorities in February 2010, this shortfall was accepted with the following conditions: an increase in Work Program commitments to USD 24.5 million, drilling of additional four wells, and an increase in total work program commitments to USD 56.8 million for subsequent three years.

On December 27, 2010, Aral signed Addendum No. 6 to Contract No. 1081. The addendum specifies an increase in work program commitments of USD 14 million, the drilling of two additional wells, and an increase in total work program commitments for 2011 and 2012, and a corresponding decrease in the 2010 work program. According to the amended work program during 2011, Aral had commitments for the amount of USD 25.8 million. Actual execution amounted to USD 34.3 million (133%). Aral fulfilled all commitments except for 2D and 3DS seismic works in the amount of USD 3.1 million. During 2012, Aral finalized all rehabilitation works on the Urikhtau location (North block – exploration territory) and this territory was transferred to National Company KazMunaiGas.

The various requirements of the work program agreed to with the MOG have been carried out by Aral. During 2012, Aral's total expenditures for the year exceeded the 2012 commitment of USD 22.5 million, reaching a total of USD 39.7 million.

Under the terms of the Exploration Contract, Aral has an obligation to create a Liquidation Fund and deposit cash in a restricted bank account (Note 9). In 2012, the restricted cash balance was used by Aral to pay the settlement amount of a legal dispute with a drilling subcontractor (Note 12(iv)). Since Aral's restricted cash balance as at December 31, 2012 was $nil, Aral was non-compliant with the Exploration Contract requirements, which could trigger the following consequences:

- Administrative sanctions: Aral may be punished for violation of terms and conditions of subsurface use contract according to article 275.1 of the Administrative Code - the administrative fine in the amount of from 120 times of the Minimum Calculation Index (“MIC”) (181.4 thousand Tenge or equivalent to USD 1,242) up to 150 times of the MIC (226.8 thousand Tenge or equivalent to USD 1,553).
- Suspension of the Exploration Contract (requires elimination of the violations): In case of breach by the Company of the Exploration Contract’s terms and conditions, the Competent Authority has the right to suspend the effect of the Exploration Contract according to article 26.3 of the Exploration Contract.
- In case of suspension of the Exploration Contract, the Competent Authority must inform Aral in written notice on the reasons of the suspension and must establish the reasonable term (period of time) for elimination of the specified violations. If Aral cures the violation within the established period of time, the effect of the Exploration Contract will be recommenced.
- Termination of the Exploration Contract: The Competent Authority has the right to unilaterally terminate the Exploration Contract according to article 26.7 of the Exploration Contract, if the violation of the Exploration Contract is not eliminated within the time period established by the Competent Authority and in case of repeat violation of the Exploration Contract terms and conditions which was the reason for the suspension.

In March 2013, Aral made 71,175 thousand Tenge (USD 474,500) of payments to the restricted cash balance and is planning to refill the restricted cash balance during the year 2013.

Management believes that non-compliance with these Exploration Contract terms would not lead to any significant financial statement adjustments.

(g) **Social and training commitments**: In accordance with the Production Contract, Aral is obliged to finance certain social infrastructure projects and training of the Kazakhstani staff engaged in the works to be executed under the Exploration Contract in the amount of 0.1% of Aral’s annual extraction cost. For the year ended December 31, 2012, Aral fulfilled its social obligations under the Exploration Contract in full. In accordance with the Production Contract, Aral is obliged to finance certain social infrastructure and training projects annually. The annual amount of the social obligation is equal to USD 100,000. Management believes that although Aral signed the Production Contact in the middle of 2010, the Annual Program has not yet been developed and approved with the relevant government authorities, and therefore no training obligations arose in 2012 and 2011.

(h) **Gas utilization**: On October 3, 2008, a “Gas utilization program” was approved and agreed with the Ministry. According to this Gas utilization program, Aral was obliged to install all required equipment by the end of 2009, otherwise gas flared during the period from October 3, 2008 to December 31, 2009 would be recognized as gas flared above the limits with consequent fines and penalties and no further gas flaring permitted. The total estimated capital expenditure to fulfill the Gas utilization program commitments was equal to CAD 12.5 million. On July 2, 2009, Aral conducted a meeting with the Ministry regarding the fulfillment of the Gas utilization program. As a result of this meeting, Aral was allowed to postpone the installation of the required equipment until December 31, 2010.

In 2011, Aral reconsidered and resubmitted a gas utilization program to the Ministry. According to the new program, Aral is obliged to construct a pipeline to the gas processing plant of Kazakh Oil Aktobe (a subsidiary of KazMunaiGas and Lukoil) at an estimated cost of USD 1,600,000. As of December 31, 2012, Aral received confirmation from Kazakh Oil Aktobe, that the quality and parameters of Aral’s gas meets the technical requirements of its gas processing plant. As of December 31, 2012, the gas utilization program is under consideration by the Ministry of Oil and Gas. Management is confident that the gas utilization program is to be approved.

(i) **Capital commitments**: As at December 31, 2012, Aral had commitments related to capital assets in the amount of CAD 11.1 million related to the construction of wells No. 306, 308 and 316.

24. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, 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 accounts receivable are with customers in the petroleum and natural gas business and are subject to normal credit risks. The Company's cash and cash equivalents 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:

	2012 $	2011 $
Cash and cash equivalents	55	2,296
Trade and other receivables	1,427	732
VAT receivable	2,541	1,305
	4,023	4,333

As at December 31, 2012, $548,000 of trade and other receivables was due from two main customers, SAICAT B.V. and Star Energy LLP and $877,000 is due from Azden Management Limited for its indemnification of the Nabors Drilling litigation (Note 12(a)(iv)). The remaining $2,000 was in respect of Canadian Goods and Services Taxes. As at December 31, 2012, the average aging of trade and other receivables is 60 days.

(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 (Note 1). 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.

The following are contractual maturities of financial liabilities, including estimated interest payments as at December 31, 2012:

	Carrying amount $	Total contractual cash flows $	2013 $	2014 $	2015 and beyond $
Trade and other payables	20,366	20,366	20,366	–	–
Loans payable	45,834	52,271	41,237	850	10,184
Convertible debentures and	11,219	13,980	13,980	–	–

derivative liability

(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, 2012 or 2011.

(i) Currency risk:

Currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to currency risk arising from the translation of USD and Kazakhstan Tenge denominated monetary assets and liabilities into Canadian dollars.

The Company operates in Kazakhstan through its joint venture investment in Aral. Like other foreign entities operating there, the Company is subject to currency exchange controls administered by the ROK. It is possible the Company may not be able to acceptably repatriate such funds once the venture is able to generate operating profits should any develop.

At December 31, 2012 the Company had cash and cash equivalents denominated in Tenge of 5,122 thousand Tenge (2011 – 15,324 thousand Tenge), trade and other receivables denominated in Tenge of 214,863 thousand Tenge (2011 – 119,027 thousand Tenge) and trade and other payables denominated in Tenge of 2,943 million Tenge (2011 – 4,532 million Tenge). At December 31, 2012, with other variables unchanged, a 1% movement in the Canadian dollar against the Tenge would have less than a $179,000 (2011 – $130,000) effect on net loss.

At December 31, 2012, the Company had cash and cash equivalents denominated in United States dollars of $5,158 (2011 – $2.1 million) and trade and other payables denominated in United States dollars of $47,000 (2011 – $58,000). At December 31, 2012, with other variables unchanged, a 1% movement in the Canadian dollar against the United States dollar would have less than a $500 (2011 – $20,000) effect on net loss.

At December 31, 2012, the Company had cash and cash equivalents denominated in Great Britain pound ("GBP") of £nil (2011 – £6,200) and trade and other payables denominated in GBP of £340,000 (2011 – £93,000). At December 31, 2012, with other variables unchanged, a 1% movement in the Canadian dollar against the GBP would have less than a $3,500 (2011 – $2,000) effect on net loss.

(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, 2012 or 2011.

(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, 2012 or 2011. If the price of oil decreased by 1%, the impact on net loss would be an increase in net loss of $36,700 (2011 – $36,000).

25. 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 strives to properly exploit its current asset base and to acquire top quality assets. To that end, the Company is not averse to maintaining a high ratio of debt to total capital if management determines the assets it is acquiring or the projects it is drilling are of high quality.

The capital structure of the Company is as follows:

	2012	2011
Total shareholders' equity	$ (36,789)	$ (18,530)
Total shareholders' equity as a % of total capital	(90%)	(44%)
Working capital (deficiency)	$ (66,913)	$ (45,639)
Total indebtedness	$ 77,702	$ 60,653
Total debt as a % of total capital	190%	144%
Total capital	$ 40,913	$ 42,123

26. Segmented information

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

December 31, 2012	Canada $	Kazakhstan $	Consolidated $
Revenue			
Oil and natural gas revenue, net	11	3,672	3,683
Expenses			
General and administrative	2,004	1,041	3,045
Operating	8	2,468	2,476
Transportation	–	1,321	1,321
Share-based compensation	1,519	–	1,519
Depletion and depreciation	5	746	751
Impairment of exploration and evaluation assets	–	9,796	9,796
	3,536	15,372	18,908
Operating loss before other items	(3,525)	(11,700)	(15,225)
Derivative fair value adjustment	2,111	–	2,111
Finance expense	(5,533)	(2,228)	(7,761)
Other income (expense)	–	(633)	(633)
Net loss	(6,947)	(14,561)	(21,508)
Foreign exchange translation	1,337	–	1,337
Comprehensive loss	(5,610)	(14,561)	(20,171)
Exploration and evaluation assets	–	21,238	21,238
Property, plant and equipment	4	15,100	15,104
Total assets	25	40,888	40,913
Total liabilities	16,101	61,601	77,702

December 31, 2011	**Canada** $	**Kazakhstan** $	**Consolidated** $
Revenue			
Oil and natural gas revenue, net	18	3,588	3,606
Expenses			
General and administrative	3,474	839	4,313
Operating	12	2,951	2,963
Transportation	–	1,578	1,578
Share-based compensation	1,647	–	1,647
Depletion and depreciation	5	1,029	1,034
Geographical and geophysical	–	71	71
	5,138	6,468	11,606
Operating loss before other items	(5,120)	(2,880)	(8,000)
Derivative fair value adjustment	5,754	–	5,754
Finance expense	(627)	(4,574)	(5,201)
Loss on disposition	(30,074)	–	(30,074)
Other income (expense)	7	(28)	(21)
Net loss	(30,060)	(7,482)	(37,542)
Foreign exchange translation	(321)	–	(321)
Comprehensive loss	(30,381)	(7,482)	(37,863)
Exploration and evaluation assets	–	29,107	29,107
Property, plant and equipment	9	7,397	7,406
Total assets	1,812	40,311	42,123
Total liabilities	13,103	47,550	60,653

27. Restatement of 2011 comparative figures

(a) In preparing the Aral financial statements for the year ended December 31, 2012, management of Aral identified the following errors related to the year ended December 31, 2011:

(i) Aral incorrectly capitalized 81,746 thousand Tenge of foreign exchange losses to exploration and evaluation assets and property, plant and equipment and in the amount 74,351 thousand Tenge and 7,395 thousand Tenge, respectively.

The restatement of the Company's consolidated financial statements for this error resulted in a $208,000 reduction in exploration and evaluation assets, a $21,000 reduction in property, plant and equipment, a $280,000 increase in finance expense, a $56,000 reduction on loss on disposition and a $5,000 decrease to other comprehensive income.

In conjunction with the above restatement, Aral reallocated 3,246 million Tenge of non-cash working capital between operating and financing activities for cash flow purposes. The net impact on the Company's consolidated statement of cash flows is a $9,159,000 increase in net cash used in operating activities and a $9,159,000 decrease in the net cash used in investing activities.

(ii) Aral incorrectly recognized and paid 283,795 thousand Tenge of expenses related to the Nabors Drilling litigation for which Aral was indemnified (Note 12(a)(iv)).

The restatement of the Company's consolidated financial statements for this error resulted a $397,000 increase in trade and other receivables, a $398,000 decrease in trade and other payables, $971,000 decrease in other expenses, a $194,000 increase in loss on disposition and an $18,000 increase in other comprehensive income.

(b) In preparing the consolidated financial statements for the year ended December 31, 2012, management of Caspian identified the following errors related to the year ended December 31, 2011:

(i) The Company under accrued interest on its loan receivable from Aral in the amount of $6.4 million, prior to the assignment of 60% of the loan to Asia Sixth (Note 6).

The restatement of the Company's consolidated financial statements for this error resulted in a $1.1 million decrease in finance expense for the effects of foreign exchange, a $3.8 million decrease in loss on disposition, a $4.9 million increase in comprehensive loss, a $3.8 million increase in opening deficit and a $3.8 million decrease in accumulated other comprehensive income.

(ii) The Company overstated exploration and evaluation assets and property, plant and equipment related to Aral's capitalization of intercompany interest charges that were incorrectly eliminated against interest expense in the consolidated statement of loss.

The restatement of the Company's consolidated financial statements for this error resulted in a $2.4 million reduction in exploration and evaluation assets, a $0.3 million reduction in property, plant and equipment and $2.7 million increase in finance expense.

(iii) The Company understated expenses for legal and other expenses related to the Nabors Drilling litigation for which the Company provided a 50% indemnification to Aral (Note 12(a)(iv)) .

The restatement of the Company's consolidated financial statements for this error resulted in a $1.25 million increase in general and administrative expenses and corresponding increase in trade and other payables.

The Company corrected the above errors retrospectively in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” as presented in the following 2011 condensed consolidated financial statements:

As at December 31, 2011 Consolidated Statement of Financial Position	Previously reported $	Adjustments $	Restated $
Assets			
Current assets	3,618	397	4,015
Non-current assets			
Other non-current assets	1,595	–	1,595
Exploration and evaluation assets	31,712	(2,605)	29,107
Property, plant and equipment	7,706	(300)	7,406
Total assets	44,631	(2,508)	42,123
Liabilities			
Current liabilities	48,805	849	49,654
Non-current liabilities	10,999	–	10,999
Total liabilities	59,804	849	60,653
Equity			
Share capital	143,092	–	143,092
Warrants	272	–	272
Contributed surplus	16,055	–	16,055
Accumulated other comprehensive income	1,551	(1,067)	484
Deficit	(176,143)	(2,290)	(178,433)
Total equity	(15,173)	(3,357)	(18,530)
Total liabilities and equity	44,631	(2,508)	42,123

For the year ended December 31, 2011	Previously reported $	Adjustments $	Restated $
Consolidated Statement of Loss and Comprehensive Loss			
Revenue	3,606	–	3,606
Expenses	10,359	1,247	11,606
Operating loss before other items	(6,753)	(1,247)	(8,000)
Derivative fair value adjustment	5,754	–	5,754
Finance expense	(3,357)	(1,844)	(5,201)
Loss on disposition	(33,687)	3,613	(30,074)
Other expense	(992)	971	(21)
Net loss	(39,035)	1,493	(37,542)
Foreign exchange translation	4,529	(4,850)	(321)
Comprehensive loss	(34,506)	(3,357)	(37,863)
Loss per share	(0.20)	–	(0.20)
Consolidated Statement of Cash Flows			
Net cash used in operating activities	(8,301)	(9,159)	(17,460)
Net cash used in investing activities	(10,884)	9,159	(1,725)

28. Subsequent events

On January 9, 2013, the Company issued 1,286,684 common shares at $0.06 per share and 643,342 share purchase warrants with an exercise price of $0.087 as settlement of convertible debenture interest. The common shares were valued at the trading price at the time of issue.

On January 25, 2013, the Company granted 5,000,000 options exercisable at $0.07 per share to directors, officers and consultants of the Company. The options vest immediately and expire on January 25, 2018.

In March 2013, the Company received USD 150,000 pursuant to a credit facility with Asia Sixth (Note 12(a)(iii)).

In April 2013, the Company received $100,000 as consideration for certain amendments in January 2013 to the consulting agreement described in Note 23(a).

In February 2013, the Company received a letter from the Toronto Stock Exchange (the TSX), which states that the listing of Company's shares on the main board of the TSX is under review with respect to meeting continued listing requirements. The Company has been granted 90 days in which to regain compliance with these listing requirements, pursuant to the TSX's remedial review process.

Between April 8 and April 12, 2013, Canadian securities regulatory authorities issued cease trade orders pertaining to the trading of the Company's securities until it files its December 31, 2012 audited consolidated financial statements and management discussion and analysis and the regulatory authorities revoke or vary this order. The Company believes that, upon making the above noted filings, it will be in compliance with its regulatory filings and the cease trade orders will be lifted.