Caspian Energy Inc.

Consolidated Financial Statements
December 31, 2014 and 2013

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 27, 2015

(signed) "*Brian Korney*"
Brian Korney, Chief Financial Officer

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, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Caspian Energy Inc. and its subsidiary as at December 31, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Caspian Energy Inc. incurred a net loss of $4.8 million during the year ended December 31, 2014 and, as of that date, the Caspian Energy Inc.'s current liabilities exceeded its total assets by $3.6 million. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about Caspian Energy Inc.'s ability to continue as a going concern.

MNP LLP
Chartered Accountants

April 27, 2015
Calgary, Alberta

MNP LLP

Caspian Energy Inc.

Consolidated Statements of Financial Position

As at December 31

(in thousands of Canadian dollars)

	2014 $	2013 $
Assets		
Current assets		
Cash and cash equivalents (Note 7)	59	17
Trade and other receivables	19	4
	78	21
Non-current assets		
Investment in Aral (Note 22)	–	–
Total assets	78	21
Liabilities		
Current liabilities		
Trade and other payables (Note 8)	370	1,950
Promissory note (Note 10)	–	47
Convertible loans (Note 9)	2,680	–
Derivative liability (Note 9)	677	–
Convertible debentures (Note 11)	–	15,949
	3,727	17,946
Non-current liabilities		
Loan payable (Note 12)	8,436	5,656
Total liabilities	12,163	23,602
Equity		
Share capital (Note 14)	159,903	143,559
Warrants (Note 15)	64	247
Contributed surplus	18,443	18,260
Deficit	(190,495)	(185,647)
Total equity	(12,085)	(23,581)
Total liabilities and equity	78	21

Reporting entity and going concern (Note 1)
Subsequent events (Note 25)

Approved by the Board of Directors

(signed) "*Gordon Harris*" Director (signed) "*Michael Nobbs* " Director

See accompanying notes to the consolidated financial statements.

Caspian Energy Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31

(in thousands of Canadian dollars)

	2014 $	2013 $
Revenue		
Oil and natural gas revenue, net	10	14
Expenses		
General and administrative	1,784	2,056
Transaction costs (Note 25 (b))	1,135	–
Operating expenses	8	9
Share-based compensation (Note 16)	–	370
Depreciation	–	4
	2,927	2,439
Operating loss before other items	(2,917)	(2,425)
Gain on settlement of trade and other payables (Note 8)	682	–
Derivative fair value adjustment (Notes 9 and 11)	(56)	208
Gain on conversion of convertible debentures (Note 11)	486	
Finance expense (Note 18)	(3,043)	(6,023)
Loss and comprehensive loss	(4,848)	(8,240)
Loss per share (Note 17)	(0.04)	(0.36)

See accompanying notes to the consolidated financial statements.

Caspian Energy Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31

(in thousands of Canadian dollars)

	2014 $	2013 $
Share capital		
Balance, January 1	143,559	143,358
Issuance of shares (Note 14)	16,344	201
Balance, December 31	159,903	143,559
Warrants		
Balance, January 1	247	313
Issuance of warrants (Note 15)	–	64
Expiry of warrants	(183)	(130)
Balance, December 31	64	247
Contributed surplus		
Balance, January 1	18,260	17,660
Share-based compensation (Note 16)	–	370
Equity contribution (Note 16)	–	100
Expiry of warrants	183	130
Balance, December 31	18,443	18,260
Deficit		
Balance, January 1	(185,647)	(177,407)
Loss and comprehensive loss	(4,848)	(8,240)
Balance, December 31	(190,495)	(185,647)
Total Equity	(12,085)	(23,581)

See accompanying notes to the consolidated financial statements.

Caspian Energy Inc.

Consolidated Statements of Cash Flows

For the years ended December 31

(in thousands of Canadian dollars)

	2014 $	2013 $
Cash flow provided by (used in)		
Operating activities		
Loss and comprehensive loss	(4,848)	(8,240)
Adjustments for:		
Share-based compensation	–	370
Depreciation	–	4
Finance expense	1,736	4,247
Gain on settlement of trade and other payables	(486)	
Derivative fair value adjustment	56	(208)
Gain on conversion of convertible debenture	(682)	
Foreign exchange	1,260	1,714
Changes non-cash working capital		
Trade and other receivables	(15)	(2)
Trade and other payables	(710)	1,102
Net cash used in operating activities	(3,689)	(1,013)
Financing activities		
Share issue costs	(92)	–
(Repayment of) proceeds from promissory note	(47)	41
Proceeds from loan payable	1,424	870
Proceeds from convertible loans	2,446	–
Equity contribution	–	100
Net cash provided by financing activities	3,731	1,011
Change in cash and cash equivalents	42	(2)
Cash and cash equivalents – January 1	17	19
Cash and cash equivalents – December 31	59	17

See accompanying notes to the consolidated financial statements.

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

1. Reporting entity and going concern

Caspian Energy Inc. ("Caspian" or the "Company") is a publicly traded company on the NEX, a separate board of TSX Venture Exchange under the stock symbol CKZ.H. Caspian 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. ("CEL"). Caspian's registered office is located at 396 11th Avenue S.W., Calgary, Alberta, Canada.

The Company's principal assets are a 40% interest in Aral Petroleum Capital LLP ("Aral"), held by CEL. The remaining 60% of Aral is held by Asia Sixth Energy Resources Limited ("Asia Sixth") and its subsidiary Groenzee BV ("Groenzee").

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.

Going concern

These consolidated financial statements have been presented on a going concern basis. For the year ended December 31, 2014, the Company reported a loss of $4.8 million and used funds for operating activities of $3.7 million. As at December 31, 2014, the Company had a net working capital deficiency of $3.6 million and a cumulative deficit of $190.5 million.

The Company's ability to continue as a going concern is in significant doubt and is dependent upon obtaining financing to fund exploration and development activities and general and administrative expenses and on Aral achieving profitable operating results from its Kazakhstan operations. The Company is undertaking the following initiatives but there are no assurances that these initiatives will be successful:

As at December 31, 2014, the Company had USD0.6 million available under the November Advance as described in Note 9, which was drawn down on January 21, 2015 as disclosed in Note 25 (a).

On August 1, 2014, the Company entered into a share purchase agreement whereby the Company will acquire all of Asia Sixth's interests in Aral, 100% of the issued and outstanding shares of Groenzee and the debt owed by Groenzee to Asia Sixth as disclosed in Note 25(b). As at December 31, 2014 and the date of these financial statements, the Company had not yet received the final approvals to close the transaction.

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.

All common share, warrant, stock option and performance share figures presented herein are on a post-consolidated basis.

2. Basis of presentation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee in effect for the fiscal year beginning January 1, 2014. The consolidated financial statements (amended) were authorized for issue by the Board of Directors on April 27, 2015.

(b) Basis of measurement

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

used to measure fair values are discussed in Note 6.

(c) Functional and presentation currency

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

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 statements of loss and comprehensive loss.

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries:

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

Transactions eliminated on consolidation:

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

(ii) Joint arrangements:

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

(b) Financial instruments

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

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables, promissory note, loan payable and the liability components of convertible loans and convertible debentures. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such instruments and makes purchase and sale decisions based on their fair value in accordance with the

Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated statements of loss and comprehensive loss. The Company has designated cash and cash equivalents at fair value through profit or loss.

Other

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

(ii) Derivative financial instruments:

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

(iii) Share capital:

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

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

(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.

(d) Trade and other receivables

Trade and other receivables are initially recognized at fair value and subsequently accounted at amortized cost using the effective interest method less provision for impairment of such receivables. A provision for impairment of trade 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 statements of loss and comprehensive loss. The primary factor that the Company considers whether a receivable is impaired is its overdue status.

(e) 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 statements of loss and comprehensive loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than 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.

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 (the "cash-generating unit" or "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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statements of comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications 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. An impairment loss is reversed only 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 or amortization, if no impairment loss had been recognized.

(f) 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.

(g) 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.

(h) Promissory note and loan payable

Promissory note and loan 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.

(i) Revenue recognition

Oil and natural gas revenues are recognized when title and risks pass to the purchaser and payment is reasonably assured.

(j) Finance income and expenses

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

(k) 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.

(l) Tax expense

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

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

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

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

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

(m) 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.

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

(n) Per share amounts

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

4. New and amended standards

(a) Standards and amendments effective in the current year

On January 1, 2014, the Company adopted amendments to the following standards:

IAS 32 Financial Instruments: Presentation

Amendments to IAS 32 Financial Instruments: Presentation clarify that an entity has a legally enforceable right to set-off if that right is (a) not contingent on a future event; and (b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments also clarify that when a settlement mechanism provides for either net settlement or gross settlement, it is equivalent to net settlement.

IAS 36 Impairment of Assets

In May 2013, the International Accounting Standards Board issued an amendment to IAS 36 Impairment of Assets. These narrow-scope amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

On July 1, 2014, the Company adopted amendments to the following standards:

IFRS 2 Share-based Payment

Amendments to IFRS 2 Share-based Payment revised the definitions of 'vesting conditions' and 'market condition' and add definitions for 'performance condition' and 'service condition'. Amendments apply to share-based payment transactions for which the grant date is on or after July 1, 2014.

IFRS 3 Business Combinations

Amendments to IFRS 3 Business Combinations clarify the classification and measurement of the obligation to pay

contingent consideration.

IAS 24 Related Party Disclosures

Amendments to IAS 24 Related Party Disclosures clarify that an entity providing key management services to the reporting entity is a related party of the reporting entity.

The adoption of the above amendments had no impact on amounts recorded in the Company's consolidated financial statements.

(b) New and amended standards not yet adopted

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

IFRS 11 Joint Arrangements

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

IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15 Revenue from Contracts with Customers which specifies how and when an entity will recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 is effective for annual period beginning on or after January 1, 2017.

IFRS 9 Financial Instruments

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

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

5. Critical accounting judgments and estimates in applying accounting policies

(a) Judgments

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

(i) Going concern

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

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

- The Company's working capital deficiency decreased from $17.9 million at December 31, 2013 to $3.6 million at December 31, 2014.
- On January 21, 2015, the Company drew the remaining USD0.6 million available under the November

Advance as described in Note 9 (Note 25 (a)).

- The Company entered into a share purchase agreement pursuant to which the Company will acquire the remaining 60% interest in Aral thereby increasing the Company's ownership of Aral to 100% (Note 25 (b)).

(ii) Equity method of accounting for the investment in Aral

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

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

- Aral's Charter represents a contractual arrangement between the participants of the Partnership and establishes joint control over the operations of Aral.
- Aral's Charter specifies that the assets and liabilities held by the Partnership are the assets and liabilities of the Partnership, not assets and liabilities of the participants of the Partnership.

(iii) Investment in Aral

Management uses judgment to assess the existence of impairment indicators such as events or changes in circumstances that may indicate the disclosed amount of certain of Aral's assets, such as exploration and evaluation assets and property, plant and equipment, may not be recoverable.

(iv) 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, 2014, the loan from Aral in the amount of $77.7 million was 100% provided for (2013 – $65.0 million and 100% provided for) and the amount of impairment offsetting interest income and the effects of foreign exchange translation recorded in the 2014 consolidated statement of loss and comprehensive loss was $12.7 million (2013 – $9.9 million).

(v) 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.

(vi) Performance criteria of share-based payments

Management applied judgment in its assessment of the likelihood of performance criteria in the consulting agreement disclosed in Note 16 being met. Based on management's judgment, the likelihood of the performance criteria being met is negligible as the direct consequences of the consulting services performed to date have yielded no significant improvements to the flow of petroleum for the wells specified in the consulting agreement.

(vii) Contingencies

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

(b) Estimates

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

(i) Stock options, performance shares, 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, performance shares, warrants and derivative financial instruments, which is based on significant assumptions such as volatility, forfeiture rate, interest rate, dividend yield, expected term and, with respect to performance shares, the likelihood of performance criteria being met.

(ii) 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.

(iii) Contingencies

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

6. Determination of fair values

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

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

The fair value hierarchy is as follows:

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

Cash and cash equivalents have been measured using level 1 inputs. The derivative liability of convertible loans (Note 9) has been measured using level 2 inputs.

(a) Cash and cash equivalents, trade and other receivables, trade and other payables and promissory note

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

(b) Convertible loans and convertible debentures

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

As at December 31, 2014, the fair value of the liability and embedded derivative component of convertible loans approximated their carrying value due to their short term to maturity as disclosed in Note 9.

(c) Loan payable

The fair value of the loan 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, 2014, the fair value of the loan payable was estimated at $5.7 million using a discounted cash flow analysis based on the Company's expected borrowing rate for similar borrowing arrangements.

(d) Stock options, performance shares, warrants and derivative financial instruments

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

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

The Company did not issue any warrants or stock options in 2014. Black-Scholes pricing model calculations for 2013 were based on the following significant assumptions:

	Warrants Note 15	Stock options Note 16
Risk-free interest rate	1.05%	1.44%
Expected volatility range	140 – 141 %	177 – 178%
Expected life	2 years	5 years
Forfeiture rate	0%	0%
Dividends	0%	0%

7. Cash and cash equivalents

	2014	2013
Cash in CAD	53	13
Cash in USD	5	3
Cash in Pounds Sterling	1	1
	59	17

8. Settlement of trade and other payables

On July 10, 2014 and August 27, 2014, the Company entered into agreements with the former Chief Executive Officer and a former director of Caspian, the Acting Chief Executive Officer and Chief Financial Officer and a director of Caspian, and two directors of Caspian (collectively, "the Executives"). Under the agreements, the Executives agreed to settle outstanding wages, consulting fees, vacation pay, termination pay, severance pay, incentive compensation, bonuses, commissions, overtime pay and any payments or claims that might be made under certain statutes totalling $1,372,893 in exchange for aggregate cash payments of $502,502 and the issuance of 3,138,240 common shares valued at $188,294 based on the closing price of the Company's shares on the date of issuance. The Company recognized a $682,097 gain in connection with the settlement of trade and other payables.

9. Convertible loans

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

The July 2014 Loan Facility was subsequently amended on November 3, 2014 to increase the maximum amount of the loan by USD 1.5 million (the "November Advance") to an aggregate total of USD 3 million. USD 0.9 million of the November Advance was advanced to Caspian pursuant to the July 2014 Loan Facility. The purpose of the financing is to allow Caspian to pay certain permitted expenses including professional fees to its advisors, administrative expenses, pre-agreed salaries and fees to its directors and officers and other amounts past due.

Interest is payable on the July 2014 Loan Facility at an annual rate of 12% per annum. The principal outstanding and any interest accrued thereon is payable on the earliest of (i) the later of November 30, 2014 and the termination of discussions in respect of a further transaction (Note 25(b)) specified in the Loan Agreement, (ii) after the execution and delivery of a binding agreement with respect to such further transaction, the termination or non-fulfilment of any conditions specified in such binding agreement, and (iii) the occurrence of an event of default under the Loan Agreement. Notwithstanding the foregoing, all accrued interest will be forgiven in the event that the full principal amount outstanding is converted to equity prior to the repayment date. All liabilities under the Loan Agreement are secured by a pledge by Caspian of 100% of the equity interests in its wholly-owned subsidiary, Caspian Energy Limited.

Prior to closing of the Share Purchase Agreement described in Note 25(b), the principal amount of the July 2014 Advance will be converted into 26,692,500 common shares at a conversion price of CAD $0.06 per common share and the principal amount of the November 2014 advance will be converted into 24,336,428 common shares at a conversion price of CAD $0.07 per common share. All accrued interest will be forgiven upon conversion.

At initial recognition of amounts under the July Advance and November Advance, the fair value of the derivative liability was determined to be $621,400 and the liability component was $1,829,759, net of $180,136 of directly attributable transaction costs.

A continuity of convertible loans is as follows:

	Liability component	Derivative liability of conversion feature
Balance, December 31, 2013	–	–
Advances net of transaction costs	1,830	621
Interest and accretion	812	–
Fair value adjustment	–	56
Foreign exchange	(38)	–
Balance, December 31, 2014	2,680	677

The fair values of the derivative liability at initial recognition and December 31, 2014 were determined using the Black-Scholes pricing model based on the following weighted average assumptions:

	At initial recognition	December 31 2014
Risk free interest rate	1.04%	1.01%
Expected life	0.28 years	0.16 years
Expected volatility	120%	120%

10. Promissory note

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

11. Convertible debentures

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

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

The December 17, 2013 amendment extended the remedial period to February 20, 2014. On January 15, 2014, the Company entered into a further extension agreement (the “Amended Extension Agreement”) with the Holders, pursuant to which the Company and Holders executed the Debenture Amendment which provides for the conversion (the “Conversion”) of the outstanding Debentures, and the obligations owing thereunder, into an aggregate of 108,319,091 shares, representing approximately 82.5% of the Company’s outstanding common shares on the business day following the receipt of shareholder approval for, among other things, the one-for-ten share consolidation (Note 14) and the Conversion.

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

A continuity of the Debentures is as follows:

	Total	Liability component	Derivative liability of conversion feature
Balance, December 31, 2012	11,219	11,011	208
Interest and accretion	4,165	4,165	–
Fair value adjustment	(208)	–	(208)
Settlement of accrued interest	(163)	(163)	–
Foreign exchange	936	936	–
Balance, December 31, 2013	15,949	15,949	–
Interest	179	179	–
Foreign exchange	606	606	–
Balance, February 20, 2014	16,734	16,734	–
Conversion to 108,319,091 common shares (Note 14)	(16,248)	(16,248)	–
Gain on conversion of Debentures	(486)	(486)	–
Balance, December 31, 2014	–	–	–

Interest continued to accrue on the debenture principal amount at 10% per annum during the remedial period and extensions. The fair value of the conversion is $nil at December 31, 2013 as it expired on the maturity date, June 2, 2013.

Upon conversion of the Debentures, the Company recognized a gain in the amount of $485,758 in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2014.

12. Loan payable

In connection with the Company's sale of a 10% interest in Aral to Asia Sixth in 2011, the Company entered into a facility agreement with Asia Sixth pursuant to which Asia Sixth advanced USD 6 million in loans to Caspian. The amounts drawn under the facility bore interest at a rate of 10% per annum until December 28, 2016 and 18% per annum, compounded annually, thereafter until November 1, 2020. The loan is to be repaid with all proceeds received by the Company by way of dividends from Aral or from the sale of any asset by the Company with the balance of all principal and interest due on November 1, 2020. Pursuant to the facility agreement, the Company provided a pledge of all of its interest in Aral in favour of Asia Sixth as security for the Company's obligations under the facility.

In connection with the execution of the Share Purchase Agreement disclosed in Note 25(b), Asia Sixth agreed to assign the loan payable, prior to the execution of the Share Purchase Agreement, to Alpha Asia Enterprises Limited, and prior to such assignment, Asia Sixth also agreed to amend the terms of the loan with more favourable terms to the Company by: (a) fixing the interest rate at 10% per annum; (b) extending the repayment date of the loan to the earlier of four years from the closing of the Share Purchase Agreement, or if the Share Purchase Agreement is terminated, October 31, 2018; and (c) discharging all security granted by the Company to Asia Sixth in respect of the loan.

As at December 31, 2014, the Company had received total draws under the facility of USD 6.0 million (2013 – USD 4.7 million).

As at December 31, 2014, the $8,436,057 balance owing under the facility is comprised of $6,976,200 of principal plus $1,459,857 of accrued interest (2013 – $5,656,041 comprised of $5,026,321 of principal plus $629,720 of accrued interest).

13. Taxes

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

	2014	2013
Loss before income taxes	(4,848)	(8,240)
Expected recovery at statutory tax rate of 25%	(1,212)	(2,060)
Change in deferred tax asset not recognized	(9,079)	(71)
Non-deductible share-based compensation	–	93
Expiry of tax losses	8,562	–
Change in tax pool estimates and other non-deductible (non-taxable) items	1,729	2,038
	–	–

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

	2014	2013
Deferred tax assets (liabilities)		
Tax losses available for carry forward	12,180	19,947
Tax reserves	(9,278)	(7,838)
Convertible notes and derivative liability	74	–
Share issue costs	54	–
Property and equipment	52	52
	3,082	12,161
Deferred tax asset not recognized	(3,082)	(12,161)
	–	–

As at December 31, 2014, the Company had estimated Canadian tax pools of $48.7 million (2013 – $48.5 million) available for deduction against future Canadian taxable income which expire between 2025 and 2034.

14. Share capital

(a) Authorized

Unlimited number of voting common shares, without stated par value

(b) Issued

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

	Number of shares	Amount
Balance, December 31, 2012	**22,695,667**	**143,358**
Convertible debenture interest obligation (i)	326,110	201
Balance, December 31, 2013	**23,021,777**	**143,559**
Settlement of trade and other payables (Note 8)	3,138,240	188
Conversion of convertible debentures (Note 10)	108,319,091	16,248
Cancellation of shares (ii)	(44,999)	–
Share issue costs	–	(92)
Balance, December 31, 2014	**134,434,109**	**159,903**

(i) During 2013, the Company issued 326,110 common shares at a weighted average price of $0.62 per share, 64,334 share purchase warrants with an exercise price of $0.87 and 98,721 share purchase warrants with an exercise price of $0.57 as settlement of Debenture interest. See Note 11.

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

15. 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, 2012	**378,408**	**$ 1.86**	**313**
Exercised (Note 14(b)(i))	163,055	0.60	64
Expired	(223,628)	1.92	(130)
Balance, December 31, 2013	**317,835**	**$ 1.17**	**247**
Expired	(154,780)	1.77	(183)
Balance, December 31, 2014	**163,055**	**$ 0.60**	**64**

The fair value of warrants issued in 2013 was determined using the Black-Scholes pricing model as disclosed in Note 6(d).

Information about warrants as at December 31, 2014 is summarized in the following table:

Exercise price	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
$ 0.57	98,721	$ 0.57	0.28
$ 0.64	64,334	0.64	0.02
	163,055	$ 0.60	0.18

16. Share-based compensation

(a) Stock options

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

On April 1, 2013, the Company granted 75,000 options exercisable at $0.50 per share to a consultant of the Company. The options vest immediately and expire on April 1, 2018.

The fair value of the options granted in 2013 was estimated to be $369,606 and recognized as share-based compensation in the consolidated statements of loss and comprehensive loss. The fair value of options was estimated using the Black-Scholes pricing model as disclosed in Note 6(d).

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

	2014		2013	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening	2,584,162	$ 1.44	2,179,162	$ 1.75
Granted	–	–	525,000	0.67
Expired	(1,580,162)	1.50	(120,000)	3.60
Closing	1,004,000	$ 1.35	2,584,162	$ 1.44
Exercisable	1,004,000	$ 1.35	2,584,162	$ 1.44

Information about options outstanding and exercisable as at December 31, 2014 is summarized in the following table:

Exercise price	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of options exercisable
$ 0.70	250,000	0.70	3.07	250,000
$ 0.95	250,000	0.95	2.86	250,000
$ 1.80	204,000	1.80	1.48	204,000
$ 1.90	200,000	1.90	2.27	200,000
$ 2.00	100,000	2.00	0.42	100,000
	1,004,000	$ 1.35	2.27	1,004,000

(b) Performance shares

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

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

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

on the TSX or such other exchange on which the Company's common shares are listed) exceeds $50.00 for a period of not less than 20 trading days, 150,000 common shares; and

(c) if at any time during the period of four years commencing on the date of the Amended Consulting Agreement, the volume weighted average trading price of the Company's common shares (as quoted on the TSX or such other exchange on which the Company's common shares are listed) exceeds $100.00 for a period of not less than 20 trading days, 400,000 common shares.

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

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

The fair value of performance shares at inception of the agreement and at subsequent reporting dates, including the modification related to the January 2013 amendments, was estimated to be a negligible amount and therefore no amount has been recognized in the consolidated statements of loss and comprehensive loss in respect of consulting services performed to date. As of December 31, 2014, no performance shares had been issued.

In April 2013, the Company received $100,000 as consideration for the amendments made in January 2013 which has been recognized as an equity contribution in contributed surplus.

17. Per share amounts

	2014	**2013**
Net loss for the year	(4,848)	(8,240)
Weighted average number of shares (in thousands) – basic:		
Issued common shares at January 1	23,022	22,696
Effect of shares issued during the year, net	94,636	268
	117,658	22,964
Net loss per share – basic and diluted	(0.04)	(0.36)

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

18. Finance expense

	2014	**2013**
Interest and accretion on convertible loans (Note 9)	812	–
Interest on promissory note (Note 10)	–	6
Interest and accretion on convertible debentures (Note 11)	179	4,165
Loss on settlement of convertible debenture interest (Note 11)	–	102
Interest expense on loan payable (Note 12)	745	405
Net foreign exchange loss	1,307	1,345
Net finance expense	**3,043**	**6,023**

19. 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:

	2014	2013
Salaries	390	799
Severance	363	–
Director fees	116	210
Share-based compensation	–	370
	869	**1,379**

20. Supplemental cash flow disclosure

During 2014, the Company paid $nil (2013 – $nil) of interest in cash and settled $nil (2013 – $163,000) of interest through the issuance of common shares and warrants.

During 2014, the Company paid $502,502 of cash and issued 3,138,240 common shares valued at $188,294 in settlement of $1,372,893 of trade and other payables (Note 8).

The Company did not pay any income taxes in 2014 or 2013.

21. Guarantee in favour of Asia Sixth

In connection with the Transaction Agreements signed on June 3, 2013, the Company agreed to provide a guarantee of its 40% share of the obligations owed by Aral to Asia Sixth under the Aral Loan Agreement.

As at December 31, 2014, obligations owed by Aral to Asia Sixth under the Aral Loan Agreement totalled USD 41.2 million comprised of USD 31.2 million of existing loans (as defined by the Aral Loan Agreement) and USD 10.0 million of amounts advanced under the USD 20 million of "New Loan" portion of the Aral Loan Agreement.

22. Selected financial information for Aral Petroleum Capital LLP

As at December 31, 2014 and 2013, the Company held a 40% interest in Aral, recognized in these consolidated financial statements using the equity method of accounting. As the investment is in a negative net asset position, there is no representation of the investment in the Company's consolidated financial statements. To date, the Company has not received any dividends from Aral.

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

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

A summary of Aral's results of operations, assets and liabilities as at and for the years ended December 31, 2014 and 2013 is presented below:

For the years ended December 31	2014	2013
Oil and natural gas revenue, net	7,385	2,186
General and administrative expenses	(2,549)	(2,356)
Operating and transportation expenses	(6,992)	(7,417)
Depletion and depreciation expense	(770)	(1,729)
Impairment of property, plant and equipment	–	(38,126)
Interest expense	(23,446)	(13,831)
Foreign exchange and other expenses	(33,355)	(3,388)
Loss and comprehensive loss	(59,727)	(64,661)

As at December 31	2014	2013
Cash and cash equivalents	2	161
Other current assets	2,655	5,626
Total current assets	2,657	5,787
Exploration and evaluation assets	48,877	51,533
Property, plant and equipment	1,034	1,902
Other non-current assets	9,156	9,943
Total non-current assets	59,067	63,378
Total assets	61,724	69,165
Trade and other payables	52,104	65,292
Current loans payable	252,621	164,300
Total current liabilities	304,725	229,592
Long-term loans payable	–	37,226
Other non-current liabilities	1,253	1,265
Total non-current liabilities	1,253	38,491
Total liabilities	305,978	268,083

As at December 31, 2014, the carrying value of property, plant and equipment was comprised of $1,034 (2013 – $1,147) for machinery, equipment and vehicles and $nil (2013 – $755) for developed and producing oil and gas assets.

The Company engaged McDaniel & Associates Consultants Ltd. for the preparation of an evaluation of crude oil reserves in the East Zhagabulak Field, Kazakhstan based on forecast prices and costs as of December 31, 2014 (the "2014 McDaniel's Report"). The estimated recoverable amounts at various discount rates expected to be derived from the East Zhagabulak Field's proved plus probable reserves based on the 2014 McDaniel's Report are as follows:

	10%	15%	20%
Proved Reserves	–	–	–
Probable Reserves	(4,948)	(12,080)	(15,886)
Total Proved Plus Probable Reserves	(4,948)	(12,080)	(15,886)

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

A summary of the Company's 40% interest in Aral's results of operations, assets and liabilities as at and for the years ended December 31, 2014 and 2013 is presented below:

For the years ended December 31	2014	2013
Oil and natural gas revenue, net	2,954	874
General and administrative expenses	(1,020)	(941)
Operating and transportation expenses	(2,796)	(2,967)
Depletion and depreciation expense	(308)	(692)
Impairment of property, plant and equipment	–	(15,250)
Interest expense	(9,378)	(5,533)
Foreign exchange and other expenses	(13,344)	(1,355)
Loss and comprehensive loss	(23,892)	(25,864)

As at December 31	2014	2013
Current assets	1,063	2,314
Exploration and evaluation assets	19,551	20,613
Property, plant and equipment	414	761
Total assets	24,960	27,665
Current liabilities	121,890	91,837
Total liabilities	122,391	107,233

As at December 31, 2014, the Company's unrecognized 40% interest of Aral's cumulative losses recognized by Aral was $101,292 (2013 – $77,399).

23. Financial risk management

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

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

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's trade and other receivables are with customers in the petroleum and natural gas business and are subject to normal credit risks. The Company's cash and cash equivalents 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:

	2014	2013
Cash and cash equivalents	59	17
Trade and other receivables	19	4
	78	21

As at December 31, 2014, 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, 2014:

	Carrying amount	Total contractual cash flows	2015	2016	2017 and beyond
Trade and other payables	370	370	370	–	–
Convertible loans and derivative liability	3,357	2,845	2,845	–	–
Loan payable	8,436	16,615	726	806	15,083

(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, 2014 or 2013.

(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 denominated monetary assets and liabilities into Canadian dollars.

At December 31, 2014, the Company had cash and cash equivalents denominated in United States dollars of $4,039 (2013 – $2,659), trade and other payables denominated in United States dollars of $106,434 (2013 – $54,905) and convertible loans denominated in USD of $2.4 million (2013 – nil). At December 31, 2014, with other variables unchanged, a 1% movement in the Canadian dollar against the United States dollar would have a $29,100 (2013 – $560) effect on the Company's consolidated net loss in 2014 and 2013.

At December 31, 2014, the Company had cash and cash equivalents denominated in Great Britain pound ("GBP") of £621 (2013 – £560) and trade and other payables denominated in GBP of £13,777 (2013 – £461,918). At December 31, 2014, with other variables unchanged, a 1% movement in the Canadian dollar against the GBP would have less than a $240 (2013 – $8,135) effect on the Company's consolidated 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, 2014 or 2013.

(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, 2014 or 2013. At December 31, 2014, with other variables unchanged, a 1% movement in commodity prices would have a nominal effect on the Company's consolidated net loss in 2014 and 2013.

24. Capital management

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

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

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

	2014	**2013**
Total shareholders' deficit	(12,085)	(23,581)
Working capital deficiency	(3,649)	(17,925)
Loan payable	8,436	5,656

The December 31, 2013 working capital deficiency includes $15,949 of Debentures which were converted to common shares of the Company on February 20, 2014 (Note 11).

25. Subsequent events

(a) On January 21, 2015, the Company drew down and received the remaining USD 0.6 million available under the November Advance as described in Note 9.

(b) On August 1, 2014, as amended November 11, 2014, the Company entered into an agreement with, among others, ASER pursuant to which Caspian will acquire all the remaining interests in Aral, not already owned by the Company. The transaction will be completed by the way of a share purchase agreement (the "Share Purchase Agreement") made among Caspian, its wholly-owned subsidiary CEL, ASER, Groenzee BV, and four other parties ("Investors").

Under the terms of the Share Purchase Agreement, the Company will acquire, in exchange for the issuance of 162,743,814 common shares to nominees of ASER and 115,450,742 common shares to the Investors, all of ASER's (and the Investors') interests in Aral (including the 50% interest in Aral owned by Groenzee BV by way of acquiring 100% of the issued and outstanding shares of Groenzee BV from ASER), and the debt owed by Groenzee BV to ASER (being approximately US$139 million) (collectively the "Purchased Assets").

The Share Purchase Agreement contains a condition precedent in favour of Caspian that Sixth Energy Limited ("Sixth Energy") (the majority shareholder of ASER) and Meridian will on closing provide a secured loan facility of up to US$61.5 million to Aral. The loan facility will be secured by share pledges over the entirety of the Company's Aral interests in favour of the lenders on a pro-rata basis.

The terms of the Share Purchase Agreement remain subject to the approval of the NEX, and consequently the terms of the agreement may be required to be amended. The closing of the transactions contemplated therein is also subject to certain conditions including but not limited to:

- Caspian having received the required shareholder approval (obtained December 12, 2014);
- The approval by the Kazakh government for the acquisition of the Aral interests;
- The execution of the financing documents providing for the US$61.5 million secured facility;
- The conversion of the convertible loans described in Note 9 into common shares of the Company;
- The execution of a shareholders' agreement among Caspian, Sixth Energy and Meridian governing certain matters relating to Caspian;
- The termination of previous agreements made directly or indirectly by ASER and the Investors to acquire interests in Aral; and
- Customary regulatory approvals and other closing conditions.

Pursuant to the shareholders' agreement to be entered as a condition of closing, ASER and Meridian will each be entitled to nominate two nominees to Caspian's board of directors and will be entitled to agree on two independent nominees in consultation with management. A seventh member of the board of directors being a member of senior management may also be nominated.

At the approval date of these consolidated financial statements, the conditions of closing had not yet been met.