

Caspian Energy Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

March 31, 2013 and 2012

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

The accompanying unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2013 and 2012 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) accounting principles as issued by the IASB and are the responsibility of the Company’s management.

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

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

March 31

2013

\$

December 31

2012

\$

January 1

2012

\$

Assets

(Note 4)

(Note 4)

Current assets

Cash and cash equivalents (Note 6)

69

19

2,199

Trade and other receivables

—

2

1

69

21

2,200

Non-current assets

Property, plant and equipment

3

4

9

Total assets

72

25

2,209

Liabilities

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

Current liabilities

Trade and other payables

1,026

848

2,007

Convertible debentures (Note 8)

12,969

11,011

—

Derivative liability (Note 8)

—

208

—

13,995

12,067

2,007

Non-current liabilities

Loan payable (Note 7)

4,374

4,034

2,041

Convertible debentures

—

—

6,287

Derivative liability

—

—

2,363

Total liabilities

18,369

16,101

12,698

Equity

Share capital (Note 9)

143,461

143,358

143,092

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Financial Position

(in thousands of Canadian dollars)

Warrants (Note 10)

347

313

272

Contributed surplus

17,997

17,660

16,055

Deficit

(180,102)

(177,407)

(169,908)

Total equity

(18,297)

(16,076)

(10,489)

Total liabilities and equity

72

25

2,209

Reporting entity and going concern (Note 1)

Subsequent events (Note 15)

Caspian Energy Inc.

Condensed Interim Consolidated Statements periods of Loss and Comprehensive Loss For the three months ended March 31

(in thousands of Canadian dollars)

2013

\$

2012

\$

(Note 4)

Revenue

Oil and natural gas revenue, net

2

4

Expenses

General and administrative

292

454

Operating expenses

2

3

Share-based compensation (Note 11)

337

—

Depreciation

1

1

632

458

Operating loss before other items

(630)

(454)

Derivative fair value adjustment (Note 8)

208

118

Finance expense (Note 13)

(2,273)

Caspian Energy Inc.

Condensed Interim Consolidated Statements periods of Loss and Comprehensive Loss For the three months ended March 31

(in thousands of Canadian dollars)

(431)

Loss and Comprehensive loss

(2,695)

(767)

Loss per share (Note 12)

(0.01)

(0.00)

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended March 31

(in thousands of Canadian dollars)

2013

\$

2012

\$

(Note 4)

Share capital

Balance, beginning of period

143,358

143,092

Issuance of shares (Note 9)

103

—

Exercise of warrants

—

103

Balance, end of period

143,461

143,195

Warrants

Balance, beginning of period

313

272

Issuance of warrants (Note 10)

34

—

Exercise of warrants

—

(56)

Balance, end of period

347

216

Contributed surplus

Balance, beginning of period

17,660

16,055

Share-based compensation (Note 11)

337

—

Balance, end of period

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended March 31

(in thousands of Canadian dollars)

17,997

16,055

Deficit

Balance, beginning of period

(177,407)

(169,908)

Loss

(2,695)

(767)

Balance, end of period

(180,102)

(170,675)

Total Equity

(18,297)

(11,209)

Caspian Energy Inc.

Condensed Interim Consolidated Statements periods of Cash Flows

For the three months ended March 31

(in thousands of Canadian dollars)

2013

\$

2012

\$

Cash flow provided by (used in)

(Note 4)

Operating activities

Loss

(2,695)

(767)

Adjustments for:

Share-based compensation

337

—

Depreciation

1

1

Finance expense

1,980

1,051

Derivative fair value adjustment

(208)

(118)

Foreign exchange

301

(175)

Changes non-cash working capital

Trade and other receivables

2

—

Trade and other payables

178

(1,370)

Net cash used in operating activities

(104)

(1,378)

Caspian Energy Inc.

Condensed Interim Consolidated Statements periods of Cash Flows

For the three months ended March 31

(in thousands of Canadian dollars)

Financing activities

Proceeds from issuance of common shares

—

47

Proceeds from loans payable, net

154

4

Net cash provided by financing activities

154

51

Change in cash and cash equivalents

50

(1,327)

Cash and cash equivalents – beginning of period

19

2,199

Cash and cash equivalents – end of period

69

872

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

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

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. The remaining 60% of Aral is held by Asia Sixth Energy Resources Limited and its subsidiary Groenzee BV (collectively “Asia Sixth”). 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 three months ended March 31, 2013, the Company reported a net loss of \$2.7 million (March 31, 2012 – \$0.8 million) and used funds for operating activities of \$0.1 million (March 31, 2012 – \$1.4 million). As at March 31, 2013, the Company had a net working capital deficiency of \$14.0 million (December 31, 2012 – \$12.0 million) and a cumulative deficit equal to \$180.1 million (December 31, 2012 – \$177.4 million).

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 due to the late filing of its December 31, 2012 audited consolidated financial statements and management discussion and analysis which occurred on April 23, 2013. The Company believes that upon completion of certain review procedures by the regulatory authorities, 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 on Aral 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 with an experienced petrophysicist for the provision of consulting services in connection with the exploitation, development and completion of eight wells in the ROK. In April 2013, the Company received \$100,000 as consideration for certain amendments made to the consulting agreement in January 2013.

As at March 31, 2013, the Company had USD 2.0 million of available funds remaining under a USD 6 million facility agreement with Asia Sixth (Note 7).

Asia Sixth 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, 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.

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.

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), including International Accounting Standard (“IAS”) 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2012.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 14, 2013.

Changes in Accounting Policies

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

On January 1, 2013, the Company adopted new standards for IFRS 10, “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Interests in Other Entities”, IFRS 13 “Fair Value Measurement” as well as consequential amendments to IAS 28 “Investments in Associates and Joint Ventures”.

IFRS 10 replaces the previous guidance on control and consolidation. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. As a result of the adoption of IFRS 10 effective January 1, 2013, and in accordance with the transitional provisions of IFRS 10, the Company re-assessed its control conclusions and determined that there were no changes in the consolidation status of its wholly-owned subsidiary. The impact of the adoption of IFRS 11 is disclosed in Note 4.

IFRS 12 sets out the annual disclosure requirements for the Company’s interests in subsidiaries, joint arrangements and associates. The adoption of IFRS 12 effective January 1, 2013, had no impact on the amounts recognized in the Company’s unaudited condensed interim consolidated financial statements or note disclosures for the three months ended March 31, 2013, but will result in additional disclosures in the Company’s consolidated financial statements for the year ended December 31, 2013.

IFRS 13 improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. Adoption of this standard had no significant impact on the Company’s financial statements other than the inclusion of fair value information disclosures for financial instruments in its unaudited condensed interim consolidated financial statements as disclosed in Note 5.

The adoption of consequential amendments to IAS 28 had no impact on the Company’s unaudited condensed interim consolidated financial statements.

Adoption of IFRS 11

The adoption of IFRS 11 resulted in the deconsolidation of the Company’s 40% proportionate share of Aral and the application of the equity method of accounting for the investment in Aral. Changes have been applied retrospectively in accordance with IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, resulting in the restatement of prior period financial information.

Under IFRS 11, interests in joint arrangements are classified as either joint operations or joint ventures depending on the Company’s rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Company’s considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Joint operations continue to be proportionately consolidated whereas joint ventures, such as the Company’s interest in Aral, now require the application of the equity method of accounting. Under the equity method, the Company’s share of individual assets and liabilities are replaced with a net investment in joint ventures amount in the consolidated statement of financial position and individual revenues and expenses are replaced with earnings/losses from investment in joint ventures amount in the consolidated statement of loss.

The Corporation recognized the deemed cost of its investment in Aral at January 1, 2012, as the net of the carrying amounts of the assets and liabilities previously proportionately consolidated by the Company, which were negative net assets. As a result, the Company assessed whether it has legal or constructive obligations in relation to the Aral’s negative net assets and concluded that it does not have any such obligations. The Company did not recognise the corresponding liability for its share of Aral’s negative net assets, rather it adjusted deficit as at January 1, 2012 and December 31, 2012 for its cumulative unrecognised share of losses of Aral of \$8.5 and \$22.5 million, respectively.

The effects of the change on the Company’s consolidated statement of financial position as at January 1, 2012, and December 31, 2012, and on the Company’s consolidated statement of loss and comprehensive loss and consolidated statement of cash flows for the three months ended March 31, 2012 and year ended December 31, 2012, are summarized below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2012

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

Previously Reported Deconsolidation of Aral Restated Assets

Current assets

Cash and cash equivalents

55

(36)

19

Trade and other receivables

1,427

(1,425)

2

Inventory

540

(540)

—

2,022

(2,001)

21

Non-current assets

Restricted cash

8

(8)

—

VAT receivable

2,541

(2,541)

—

Exploration and evaluation assets

21,238

(21,238)

—

Property, plant and equipment

15,104

(15,100)

4

Total assets

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

40,913
(40,888)
25

Liabilities

Current liabilities

Trade and other payables

20,366
(19,518)
848

Loans payable

37,350
(37,350)

—

Convertible debentures

11,011

—

11,011

Derivative liability

208

—

208

68,935

(56,868)

12,067

Non-current liabilities

Taxes payable

45

(45)

—

Decommissioning liabilities

238

(238)

—

Loans payable

8,484

(4,450)

4,034

Total liabilities

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

77,702
(61,601)
16,101
Equity

Share capital
143,358
—
143,358
Warrants
313
—
313
Contributed surplus
17,660
—
17,660
Accumulated other comprehensive income
1,821
(1,821)
—
Deficit
(199,941)
22,534
(177,407)
Total equity
(36,789)
20,713
(16,076)
Total liabilities and equity
40,913
(40,888)
25

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

January 1, 2012

**Previously
Reported
Deconsolidation
of Aral
Restated
Assets**

Current assets

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

Cash and cash equivalents

2,296

(97)

2,199

Trade and other receivables

732

(731)

1

Inventory

987

(987)

—

4,015

(1,815)

2,200

Non-current assets

Restricted cash

290

(290)

—

VAT receivable

1,305

(1,305)

—

Exploration and evaluation assets

29,107

(29,107)

—

Property, plant and equipment

7,406

(7,397)

9

Total assets

42,123

(39,914)

2,209

Liabilities

Current liabilities

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

Trade and other payables

15,116

(13,109)

2,007

Loans payable

34,538

(34,538)

—

49,654

(47,647)

2,007

Non-current liabilities

Decommissioning liabilities

249

(249)

—

Loans payable

2,100

(59)

2,041

Convertible debentures

6,287

—

6,287

Derivative liability

2,363

—

2,363

Total liabilities

60,653

(47,955)

12,698

Equity

Share capital

143,092

—

143,092

Warrants

272

—

272

Contributed surplus

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

16,055
—
16,055
Accumulated other comprehensive income
484
(484)
—
Deficit
(178,433)
8,525
(169,908)
Total equity
(18,530)
8,041
(10,489)
Total liabilities and equity
42,123
(39,914)
2,209

Consolidated Statement of Loss and

For the three months ended March 31, 2012

Comprehensive Loss

Previously

Reported

Deconsolidation

of Aral

Restated

Revenue

Oil and natural gas revenue, net

550

(546)

4

Expenses

General and administrative

618

(164)

454

Operating expenses

317

(314)

3

Transportation

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

24
(24)
—
Depletion and depreciation
60
(59)
1
1,019
(561)
458
Operating loss before other items
(469)
15
(454)
Derivative fair value adjustment
118
—
118
Finance expense
(1,874)
1,443
(431)
Loss
(2,225)
1,458
(767)
Foreign exchange translation
377
(377)
—
Comprehensive loss
(1,848)
1,081
(767)
Loss per share
(0.01)
0.01
(0.00)

Consolidated Statement of Loss and

For the year ended December 31, 2012

Comprehensive Loss
Previously
Reported
Deconsolidation
of Aral
Restated
Revenue

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

Oil and natural gas revenue, net

3,683

(3,672)

11

Expenses

General and administrative

3,045

(1,041)

2,004

Operating expenses

2,476

(2,468)

8

Transportation

1,321

(1,321)

—

Share-based compensation

1,519

—

1,519

Depletion and depreciation

751

(746)

5

Impairment of exploration and evaluation assets

9,796

(9,796)

—

18,908

(15,372)

3,536

Operating loss before other items

(15,225)

11,700

(3,525)

Derivative fair value adjustment

2,111

—

2,111

Finance expense

(7,761)

1,676

(6,085)

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

Other expense
(633)
633
—
Loss
(21,508)
14,009
(7,499)
Foreign exchange translation
1,337
(1,337)
—
Comprehensive loss
(20,171)
12,672
(7,499)
Loss per share
(0.10)
0.07
(0.03)

Consolidated Statement of Cash Flows

For the three months ended March 31, 2012

**Previously
Reported
Deconsolidation
of Aral
Restated**
Cash flow provided by (used in)

Net cash used in operating activities
(843)
(535)
(1,378)
Net cash provided by financing activities
1,016
(965)
51
Net cash used in investing activities
(1,568)
1,568
—
Change in cash and cash equivalents
(1,395)
68
(1,327)

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

Cash and cash equivalents – beginning of period

2,296

(97)

2,199

Cash and cash equivalents – end of period

901

(29)

872

Consolidated Statement of Cash Flows

For the year ended December 31, 2012

Previously

Reported

Deconsolidation

of Aral

Restated

Cash flow provided by (used in)

Net cash used in operating activities

(11,698)

7,478

(4,220)

Net cash provided by financing activities

11,598

(9,558)

2,040

Net cash used in investing activities

(2,141)

2,141

–

Change in cash and cash equivalents

(2,241)

61

(2,180)

Cash and cash equivalents – beginning of year

2,296

(97)

2,199

Cash and cash equivalents – end of year

55

(36)

19

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.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

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.

Cash and cash equivalents, trade and other receivables, trade and other payables

The fair value of cash and cash equivalents, trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2013, the fair value of these balances approximated their carrying value due to their short term to maturity.

Loan payable

The fair value of loans payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2013, the fair value of the loan payable was estimated at \$6.6 million using a discounted cash flow analysis based on the Company's expected borrowing rate for similar borrowing arrangements.

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.

As at March 31, 2013, the fair value of the liability and embedded derivative components of convertible debentures approximated their carrying value due to their short term to maturity as disclosed in Note 8.

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).

Cash and cash equivalents

**March 31
20112013**

**December 31
2012**
Cash in CAD

42
16
Cash in USD

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

27
3

69
19
Loans 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 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. As at March 31, 2013, the Company had received two USD 2 million tranches for a total draw of USD 4 million (December 31, 2012 – USD 3.85).

As at March 31, 2013, the \$4,373,956 balance owing Asia Sixth is comprised of \$4,068,280 principal plus \$305,676 of accrued interest (December 31, 2012 – \$4,033,855 balance comprised of \$3,863,987 principal plus \$196,868 of accrued interest).

Convertible debentures

As at March 31, 2013 and December 31, 2012, the Company had USD 12.5 million principal amount of 10% per annum convertible debentures (the "Debentures") with a maturity date of June 2, 2013 and secured with Caspian shares issued and outstanding.

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	1,818	1,818	–
Fair value adjustment	(208)	–	(208)
Settlement of accrued interest	(81)	(81)	–
Foreign exchange	221	221	–
Balance, March 31, 2013	12,969	12,969	–

As at March 31, 2013, the fair value of the derivative component was determined to be \$376 (USD 370) (December 31, 2012 – \$207,515 (USD 208,223)).

The fair value of the derivative component at March 31, 2013 was estimated using the Black-Scholes pricing model based on 126% expected volatility, 0.99% risk-free rate, 0.2 years expected life and no dividends.

Share capital

Number of shares

Amount
\$

Balance, December 31, 2012

226,956,667

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

143,358

Convertible debenture interest obligation

1,286,684

103

Balance, December 31, 2012

228,243,351

143,461

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 Debenture interest. The common shares were valued at the trading price at the time of issue.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2013 and 2012

Warrants

As at December 31, 2012, the Company had 3,784,075 warrants outstanding. On January 9, 2013, the Company issued 643,342 warrants exercisable at \$0.087 per share in connection with the settlement of Debenture interest (Note 9). The warrants expire on January 9, 2015. As at March 31, 2013, the Company had 4,427,417 warrants outstanding.

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

The fair value of the warrants estimated to be \$34,322 using the Black-Scholes pricing model which was recognized as finance expense in the March 31, 2013 consolidated statement of loss and comprehensive loss. The Black-Scholes pricing model assumptions were 140% expected volatility, 1.17% risk-free rate, 2 year expected life and no dividends.

Information about warrants as at March 31, 2013 is summarized in the following table:

Exercise price
Number of warrants outstanding
Weighted average exercise price
Weighted average remaining contractual life (years)

\$ 0.087
643,342
\$ 0.087
1.78

\$ 0.141
393,606
0.141
1.51

\$ 0.146
1,517,236
0.146
0.59

\$ 0.184
318,182
0.184
1.27

\$ 0.191
836,007
0.191
1.04

\$ 0.289
719,044
0.289
0.37

4,427,417
\$ 0.159
0.94

Share-based compensation

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

As at December 31, 2012, the Company had 21,791,621 options outstanding. 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. As at March 31, 2013, the Company had 26,791,621 options outstanding. The fair value of the options was estimated to be \$336,724 using the Black-Scholes pricing model which was recognized as share-based compensation in the March 31, 2013 consolidated statement of loss and comprehensive loss. The Black-Scholes pricing model assumptions were 184% expected volatility, 1.46% risk-free rate, 5 year expected life and no dividends.

Information about options outstanding and exercisable as at March 31, 2013 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	Exercise price	Number of options exercisable	Weighted average exercise price	Weighted average remaining contractual life (years)
\$ 0.07	5,000,000	\$ 0.07	4.82	5,000,000	\$ 0.095	5,000,000	0.095	4.61
\$ 0.18	7,441,621	\$ 0.18	3.24	7,441,621	\$ 0.19	6,000,000	0.19	4.03
\$ 0.36	1,200,000	\$ 0.36	2.17	1,200,000	\$ 0.20	2,150,000	0.20	2.17

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

26,791,621
\$ 0.157
3.73
26,791,621

Per share amounts

For the three months ended March 31

Loss for the period

Weighted average number of shares (in thousands) – basic:

Issued common shares at January 1

Effect of shares issued during the year

Net loss per share – basic and diluted

The effect of options, Debentures and warrants is anti-dilutive in loss periods.

Finance expense

For the three months ended March 31

Interest on convertible debentures

Accretion of convertible debentures

Interest expense on loan payable

Net foreign exchange (gain) loss

	2013	2012
Loss for the period	\$ (2,695)	\$ (767)
Weighted average number of shares (in thousands) – basic:		
Issued common shares at January 1	226,957	223,293
Effect of shares issued during the year	1,158	537
	228,115	223,830
Net loss per share – basic and diluted	\$ (0.01)	\$ (0.00)
Finance expense		
For the three months ended March 31		
Interest on convertible debentures	396	311
Accretion of convertible debentures	1,478	740
Interest expense on loan payable	106	–
Net foreign exchange (gain) loss	293	(620)
	2,273	431

Selected financial information for Aral Petroleum Capital LLP

The Company holds a 40% interest in Aral, recognized in these 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.

A summary of the Company's 40% interest in Aral's results of operations, assets and liabilities is presented below:

For the three months ended March 31

2013

2012

Oil and natural gas revenue, net

38

546

General and administrative expenses

(146)

(164)

Operating and transportation expenses

(248)

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2013 and 2012

(338)

Depletion and depreciation expense

(73)

(59)

Finance expense

(297)

(1,443)

Loss

(726)

(1,458)

March 31

2013

December 31

2012

Exploration and evaluation assets

22,275

21,238

Property, plant and equipment

16,531

15,100

Total assets

43,829

40,888

Total liabilities

65,844

61,601

Subsequent events

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.

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 due to the late filing of its December 31, 2012 audited consolidated financial statements and management

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2013 and 2012

discussion and analysis which occurred on April 23, 2013. The Company believes that upon completion of certain review procedures by the regulatory authorities, the cease trade orders will be lifted.

On April 1, 2013, the Company granted 750,000 options exercisable at \$0.05 per share to a consultant of the Company. The options vest immediately and expire on April 1, 2018.

In April 2013, the Company received \$100,000 as consideration for certain amendments made to the performance-based consulting agreement with an experienced petrophysicist.