

Caspian Energy Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

September 30, 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 and nine months ended September 30, 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

(unaudited)

(in thousands of Canadian dollars)

	September 30 2013	December 31 2012	January 1 2012
	\$	\$	\$
Assets		(Note 4)	(Note 4)
Current assets			
Cash and cash equivalents (Note 6)	126	19	2,199
Trade and other receivables	1	2	1
	<u>127</u>	<u>21</u>	<u>2,200</u>
Non-current assets			
Property, plant and equipment	–	4	9
Total assets	<u>127</u>	<u>25</u>	<u>2,209</u>
Liabilities			
Current liabilities			
Trade and other payables	1,308	848	2,007
Promissory note (Note 7)	45	–	–
Convertible debentures (Note 8)	14,909	11,011	–
Derivative liability (Note 8)	–	208	–
	<u>16,262</u>	<u>12,067</u>	<u>2,007</u>
Non-current liabilities			
Loan payable (Note 9)	5,124	4,034	2,041
Convertible debentures	–	–	6,287
Derivative liability	–	–	2,363
Total liabilities	<u>21,386</u>	<u>16,101</u>	<u>12,698</u>
Equity			
Share capital (Note 10)	143,559	143,358	143,092
Warrants (Note 11)	325	313	272
Contributed surplus	18,182	17,660	16,055
Deficit	(183,325)	(177,407)	(169,908)
Total equity	<u>(21,259)</u>	<u>(16,076)</u>	<u>(10,489)</u>
Total liabilities and equity	<u>127</u>	<u>25</u>	<u>2,209</u>

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(in thousands of Canadian dollars)

Reporting entity and going concern (Note 1)

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss For the three and nine months ended September 30 (unaudited)

(in thousands of Canadian dollars)

	Three months ended September 30		Nine months September 30	
	2013 \$	2012 \$	2013 \$	2012 \$
		(Note 4)		(Note 4)
Revenue				
Oil and natural gas revenue, net	4	2	10	9
Expenses				
General and administrative	398	1,675	1,138	2,657
Operating expenses	3	1	8	6
Share-based compensation (Note 12)	–	–	370	1,138
Depreciation	2	2	4	4
	403	1,678	1,520	3,805
Operating loss before other items	(399)	(1,676)	(1,510)	(3,796)
Derivative fair value adjustment (Note 8) –		971	208	2,127
Finance expense (Note 15)	(224)	(365)	(4,616)	(2,446)
Loss and comprehensive loss	(623)	(1,070)	(5,918)	(4,115)
Loss per share (Note 13)	(0.00)	(0.01)	(0.03)	(0.02)

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Changes in Equity For the nine months ended September 30 (unaudited)

(in thousands of Canadian dollars)

	2013	2012
	\$	\$
		(Note 4)
Share capital		
Balance, January 1	143,358	143,092
Issuance of shares (Note 10)	201	242
Exercise of warrants	–	103
Balance, September 30	143,559	143,437
Warrants		
Balance, January 1	313	272
Issuance of warrants (Note 11)	64	149
Exercise of warrants	–	(56)
Expiry of warrants	(52)	(86)
Balance, September 30	325	279
Contributed surplus		
Balance, January 1	17,660	16,055
Share-based compensation (Note 12)	370	1,138
Equity contribution (Note 14)	100	–
Expiry of warrants	52	86
Balance, September 30	18,182	17,279
Deficit		
Balance, January 1	(177,407)	(169,908)
Loss	(5,918)	(4,115)
Balance, September 30	(183,325)	(174,023)
Total Equity	(21,259)	(13,028)

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows For the nine months ended September 30 (unaudited)

(in thousands of Canadian dollars)

	2013	2012
	\$	\$
Cash flow provided by (used in)		(Note 4)
Operating activities		
Loss	(5,918)	(4,115)
Adjustments for:		
Share-based compensation	370	1,138
Depreciation	4	4
Finance expense	4,121	3,719
Derivative fair value adjustment	(208)	(2,127)
Foreign exchange	466	769
Changes non-cash working capital		
Trade and other receivables	1	–
Trade and other payables	460	(1,598)
Net cash used in operating activities	(704)	(2,210)
Financing activities		
Proceeds from issuance of common shares	–	47
Proceeds from promissory note	41	–
Proceeds from loans payable, net	670	4
Equity contribution	100	–
Net cash provided by financing activities	811	51
Change in cash and cash equivalents	107	(2,159)
Cash and cash equivalents – January 1	19	2,199
Cash and cash equivalents – September 30	126	40

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Caspian Energy Inc.

Condensed Interim Consolidated Statements of Cash Flows
For the nine months ended September 30 (unaudited)

(in thousands of Canadian dollars)

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012 (unaudited)

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

1. Reporting entity and going concern

Caspian Energy Inc. (“Caspian” or the “Company”) is a publicly traded company on the 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. (“CEL”). 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 (“ASER”) 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 nine months ended September 30, 2013, the Company reported a net loss of \$5.9 million (September 30, 2012 – \$4.1 million) and used funds for operating activities of \$0.7 million (September 30, 2012 – \$2.2 million). As at September 30, 2013, the Company had a net working capital deficiency of \$16.1 million (December 31, 2012 – \$12.0 million) and a cumulative deficit equal to \$183.3 million (December 31, 2012 – \$177.4 million).

On September 24, 2013, the Company’s common shares were delisted from the Toronto Stock Exchange (“TSX”) due to the Company’s failure to meet the continued listing requirements of the TSX. The Company has decided not to appeal the delisting decision and is seeking a listing on NEX as a listing alternative until it is able to meet the requirements of the TSX or the TSX Venture Exchange. NEX is a separate board of TSX Venture Exchange that provides a trading forum for listed companies that have fallen below the TSX’s continued listing requirements. On November 20, 2013, the ASC granted a full revocation of the cease trade order relating to the trading of Caspian’s securities issued by the ASC on April 8, 2013. On November 28, 2013, trading resumed at market open on the NEX under the symbol CEK.H.

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.

On June 13, 2013, the Company signed a number of agreements (the “Transaction Agreements”) which:

- Provide for the availability of a USD 20 million “New Loan” from Asia Sixth to Aral under the “Aral Loan Agreement” for the purpose of funding operations, including the work prescribed in the work program agreed with the Ministry of Oil and Gas in Kazakhstan;
- Amend the USD 6 million loan agreement (Note 9) between the Company and Asia Sixth to allow the Company to draw USD 100,000 each month for nine months from June 2013 to November 2013 and to draw an additional USD 1.4 million as early as December 28, 2013. These funds will enable the Company to bring current all of its existing payable and to cover its budgeted operating expenses over the next 18 months;

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

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- Provide for the sale and transfer of part of its ownership interest in Aral to Asia Sixth resulting in the Company's interest in Aral to reduce from 40% to 33.5% for consideration of USD 1. The sale and transfer will be completed upon satisfaction or waiver of the following conditions:
 - Conditions in favour of Asia Sixth include: (i) consent from the Ministry of Oil and Gas of Kazakhstan which may take 6-18 months but will not prevent other conditions to proceed before this consent is received, (ii) a waiver from the Government of Kazakhstan relating to its priority right to purchase the Interest, and (iii) approval of the Company's debenture holders (Note 8).
 - Conditions in favour of CEL include: (i) receipt of a letter from Asia Sixth's investors confirming the availability of loans of not less than USD 20 million; (ii) receipt by Aral of an initial USD 2 million of advances from Asia Sixth required to complete certain specified testing of oil wells (received in July 2013); and (iii) Asia Sixth having failed in its obligation to make advances under the loan agreements.
- Provides a guarantee by the Company of the "Relevant Percentage" of the obligations owed by Aral to Asia Sixth under the Aral Loan Agreement (Note 16). The "Relevant Percentage" is defined as 40%, provided that upon completion of the transfer of the 6.5% interest to Asia Sixth, the Relevant Percentage will mean 33.5%.
- Provide for a pledge by the Company of all of its interest in Aral in favour of Asia Sixth as security for: (i) the Company's obligations under the USD6 million loan facility (Note 9), and (ii) the Relevant Percentage of Aral's obligations under the Aral Loan Agreement.
- Provides for the complete and deep subordination of all obligations currently owing by Aral to the Company, in favour of obligations owing by Aral to Asia Sixth under the Aral Loan Agreement.
- Prohibits the Company from taking any action to enforce its rights in respect of the subordinated obligations so long as any amounts remain owing by Aral to Asia Sixth.

As at September 30, 2013, the Company had USD 1.5 million of available funds remaining under the USD 6 million facility agreement with Asia Sixth (Note 9).

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue its operations. Such adjustments could be material.

2. Basis of presentation

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 November 29, 2013.

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Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012 (unaudited)

3. Changes in Accounting Policies

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.

4. 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

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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 year ended December 31, 2012 are disclosed in the Note 4 to the Company's March 31, 2013 condensed interim consolidated financial statements.

The effects of the change on the Company's consolidated statement of loss and comprehensive loss for the three and nine months ended September 30, 2012 and the consolidated statement of cash flows for the nine months ended September 30, 2012 are summarized below:

Consolidated Statement of Loss and Comprehensive Loss	For the three months ended September 30, 2012		
	Previously Reported	Deconsolidation of Aral	Restated
Revenue			
Oil and natural gas revenue, net	1,131	(1,129)	2
Expenses			
General and administrative	2,008	(333)	1,675
Operating expenses	659	(658)	1
Transportation	459	(459)	–
Share-based compensation	–	–	–
Depletion and depreciation	195	(193)	2
	3,321	(1,643)	1,678
Operating loss before other items	(2,190)	514	(1,676)
Derivative fair value adjustment	971	–	971
Finance expense, net	(421)	56	(365)
Other expense	–	–	–
Loss	(1,640)	570	(1,070)
Foreign exchange translation	(611)	611	–
Comprehensive loss	(2,251)	1,181	(1,070)
Loss per share	(0.01)	0.00	(0.01)

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Consolidated Statement of Loss and Comprehensive Loss	For the nine months ended September 30, 2012		
	Previously Reported	Deconsolidation of Aral	Restated
Revenue			
Oil and natural gas revenue, net	2,681	(2,672)	9
Expenses			
General and administrative	3,283	(626)	2,657
Operating expenses	1,783	(1,777)	6
Transportation	931	(931)	–
Share-based compensation	1,138	–	1,138
Depletion and depreciation	450	(446)	4
	7,585	(3,780)	3,805
Operating loss before other items	(4,904)	1,108	(3,796)
Derivative fair value adjustment	2,127	–	2,127
Finance expense, net	(4,404)	1,958	(2,446)
Other expense	6	(6)	–
Loss	(7,175)	3,060	(4,115)
Foreign exchange translation	854	(854)	–
Comprehensive loss	(6,321)	2,206	(4,115)
Loss per share	(0.03)	0.01	(0.02)

Consolidated Statement of Cash Flows	For the nine months ended September 30, 2012		
	Previously Reported	Deconsolidation of Aral	Restated
Cash flow provided by (used in)			
Net cash used in operating activities	(842)	(1,368)	(2,210)
Net cash provided by financing activities	7,264	(7,213)	51
Net cash used in investing activities	(8,572)	8,572	–
Change in cash and cash equivalents	(2,150)	(9)	(2,159)
Cash and cash equivalents – January 1	2,296	(97)	2,199
Cash and cash equivalents – September 30	146	(106)	40

5. Determination of fair values

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

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

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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 8) has been measured using level 3 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 is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At September 30, 2013, the fair value of these balances approximated their carrying value due to their short term to maturity.

(b) Convertible debentures

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

As at September 30, 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.

(c) 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 September 30, 2013, the fair value of the loan payable was estimated at \$7.7 million using a discounted cash flow analysis based on the Company's expected borrowing rate for similar borrowing arrangements.

(d) 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).

6. Cash and cash equivalents

	September 30 2013	December 31 2012
Cash in CAD	9	16
Cash in USD	11	3
Cash in Pounds Sterling	106	–
	<u>126</u>	<u>19</u>

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Notes to Condensed Interim Consolidated Financial Statements

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7. 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 is unsecured, matures on December 31, 2013 and bears interest at 20% per annum. Principal and accrued interest are due on or before December 31, 2013.

As at September 30, 2013, the \$45,240 balance is comprised of \$41,127 principal plus \$4,113 of accrued interest.

8. Convertible debentures

As at September 30, 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.

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 holder. Each of the Debenture holders has agreed to extend the period to remedy such failure to pay until November 26, 2013. Presently, the Company continues to be in discussion with the Debenture Holders to further extend the period of remedy. There is no assurance that the Company will be successful in these discussions.

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	3,734	3,734	–
Fair value adjustment	(208)	–	(208)
Settlement of accrued interest	(163)	(163)	–
Foreign exchange	327	327	–
Balance, September 30, 2013	14,909	14,909	–

9. 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, of which USD 2 million remained available as at June 3, 2013.

On June 3, 2013, the terms of the facility agreement were amended to the following terms, which represent a refinement of original terms:

- Loans advanced under the facility will bear interest at a rate of 10% per annum until December 28, 2016 and 18% per annum, compounded annually, thereafter until November 1, 2020.
- The Company is permitted to draw up to USD 100,000 during each calendar month until November 2013 at which time, until expiry, the Company may draw the undrawn balance of the remaining USD 2,000,000.
- The ability to draw under the facility expires after 12 months.
- The loans are 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.
- The balance of all principal and interest still owing on November 1, 2020 must be repaid on such date.

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- 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.

As at September 30, 2013, the Company had received total draws under the facility of USD 4.5 million (December 31, 2012 – USD 3.85).

As at September 30, 2013, the \$5,123,937 balance owing Asia Sixth is comprised of \$4,636,350 principal plus \$487,587 of accrued interest (December 31, 2012 – \$4,033,855 balance comprised of \$3,863,987 principal plus \$196,868 of accrued interest).

10. Share capital

	Number of shares	Amount \$
Balance, December 31, 2012	226,956,667	143,358
Convertible debenture interest obligation (i)	1,286,684	103
Convertible debenture interest obligation (ii)	1,974,420	98
Balance, September 30, 2013	<u>230,217,771</u>	<u>143,559</u>

(i) On January 9, 2013, the Company issued 1,286,684 common shares at \$0.08 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.

(ii) On April 11, 2013, the Company issued 1,974,420 common shares at \$0.05 per share and 987,210 share purchase warrants with an exercise price of \$0.057 as settlement of Debenture interest. The common shares were valued at the last trading price prior to receipt of a cease trade order of the Alberta Securities Commission.

11. Warrants

As at December 31, 2012, the Company had 3,784,075 warrants outstanding.

During the nine months ended September 30, 2013, the Company issued 643,342 warrants exercisable at \$0.087 per share and 987,210 warrants exercisable at \$0.042 per share in connection with the settlement of Debenture interest (Note 9). The warrants expire two years from the date of issuance. In August 2013, 719,044 warrants exercisable at \$0.289 per share expired.

As at September 30, 2013, the Company had 4,695,583 warrants outstanding.

The fair value of the warrants issued in 2013 was estimated to be \$34,322 using the Black-Scholes pricing model which was recognized as finance expense in the 2013 consolidated statement of loss and comprehensive loss. The weighted average Black-Scholes pricing model assumptions were 141% expected volatility, 1.05% risk-free rate, 2 year expected life and no dividends.

Information about warrants as at September 30, 2013 is summarized in the following table:

Exercise price	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
\$ 0.042	987,210	\$ 0.042	1.53
\$ 0.087	643,342	0.087	1.28
\$ 0.141	393,606	0.141	1.01
\$ 0.146	1,517,236	0.146	0.08
\$ 0.184	318,182	0.184	0.77

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\$ 0.191	836,007	0.191	0.54
	<u>4,695,583</u>	<u>\$ 0.126</u>	<u>0.76</u>

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12. Share-based compensation

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.

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.

The fair value of the options granted during the nine months ended September 30, 2013 was estimated to be \$369,606 using the Black-Scholes pricing model which was recognized as share-based compensation in the 2013 consolidated statement of loss and comprehensive loss. The weighted average Black-Scholes pricing model assumptions were 177% expected volatility, 1.446% risk-free rate, 5 year expected life and no dividends.

	Number of options	Weighted average exercise price
Balance, December 31, 2012	21,791,621	\$ 0.18
Granted	5,750,000	0.07
Expired	(1,200,000)	(0.36)
Balance, September 30, 2013	<u>26,341,621</u>	<u>\$ 0.14</u>

Information about options outstanding and exercisable as at September 30, 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
\$ 0.05	750,000	\$ 0.05	4.50	750,000
\$ 0.07	5,000,000	0.07	4.32	5,000,000
\$ 0.095	5,000,000	0.095	4.11	5,000,000
\$ 0.18	7,441,621	0.18	2.73	7,441,621
\$ 0.19	6,000,000	0.19	3.53	6,000,000
\$ 0.20	2,150,000	0.20	1.67	2,150,000
	<u>26,341,621</u>	<u>\$ 0.14</u>	<u>3.31</u>	<u>26,341,621</u>

13. Per share amounts

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Loss for the period	<u>\$ (623)</u>	<u>\$ (1,070)</u>	<u>\$ (5,918)</u>	<u>\$ (4,115)</u>
Weighted average number of shares (in thousands) – basic:				
Issued common shares at January 1	226,957	223,293	226,957	223,293
Effect of shares issued during the year	3,261	2,814	2,488	829
	<u>230,218</u>	<u>226,107</u>	<u>229,445</u>	<u>224,122</u>
Net loss per share – basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>

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

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Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012 (unaudited)

14. Equity contribution

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 in relation to the terms of equity compensation.

15. Finance expense

	Three months ended		Nine months ended	
	September 30		September 30	
	2013	2012	2013	2012
Interest on promissory note	2	–	4	–
Interest on convertible debentures	469	317	1,157	954
Accretion of convertible debentures	–	1,046	2,679	2,695
Interest expense on loan payable	119	74	281	225
Net foreign exchange (gain) loss	(366)	(1,072)	495	(1,428)
	<u>224</u>	<u>365</u>	<u>4,616</u>	<u>2,446</u>

16. Guarantee in favour of Asia Sixth

In connection with the Transaction Agreements signed on June 13, 2013 (Note 1), 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 September 30, 2013, obligations owed by Aral to Asia Sixth under the Aral Loan Agreement totalled USD 25.2 million comprised entirely of existing loans (as defined by the Aral Loan Agreement) as no amounts had yet been advanced under the USD 20 million of “New Loan” portion of the Aral Loan Agreement).

As at September 30, 2013, Aral received USD 5.3 million of advances under the New Loan portion of the Aral Loan Agreement.

17. Selected financial information for Aral Petroleum Capital LLP

As at September 30, 2013 and December 31, 2012, the Company held 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. To date, the Company has not received any dividends from Aral.

A summary of Aral’s results of operations, assets and liabilities is presented below:

	For the nine months ended September 30	
	2013	2012
Oil and natural gas revenue, net	1,440	6,680
General and administrative expenses	(1,195)	(1,565)
Operating and transportation expenses	(5,840)	(6,771)
Depletion and depreciation expense	(1,060)	(1,115)
Interest expense	(1,455)	(480)
Other finance expense	(1,789)	(4,400)
Loss and comprehensive loss	<u>(9,899)</u>	<u>(7,651)</u>

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Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012 (unaudited)

	September 30 2013	December 31 2012
Cash and cash equivalents	108	90
Other current assets	6,256	4,913
Total current assets	6,364	5,003
Exploration and evaluation assets	66,198	53,095
Property, plant and equipment	43,865	37,750
Other non-current assets	7,906	6,373
Total non-current assets	117,969	97,218
Total assets	124,333	102,220
Trade and other payables	59,350	48,795
Current loans payable	115,665	93,375
Total current liabilities	175,015	142,170
Long-term loans payable	11,428	11,125
Other non-current liabilities	643	708
Total non-current liabilities	12,071	11,833
Total liabilities	187,086	154,003

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

	<u>For the nine months ended September 30</u>	
	2013	2012
Oil and natural gas revenue, net	576	2,672
General and administrative expenses	(478)	(626)
Operating and transportation expenses	(2,336)	(2,708)
Depletion and depreciation expense	(424)	(446)
Interest expense	(581)	(192)
Other finance expense	(716)	(1,760)
Loss and comprehensive loss	(3,959)	(3,060)
	September 30 2013	December 31 2012
Current assets	2,545	2,001
Exploration and evaluation assets	26,478	21,238
Property, plant and equipment	17,549	15,100
Total assets	49,732	40,888

Caspian Energy Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2013 and 2012 (unaudited)

Current liabilities	70,006	56,868
Total liabilities	74,834	61,601