MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of operating and financial results as provided by the management of Caspian Energy Inc. ("Caspian" or "the Company") is based on currently available information. This commentary should be read in conjunction with the unaudited condensed interim consolidated financial statements and selected notes for the three months ended March 31, 2018 along with any other documents filed on www.sedar.com. This MD&A has been prepared effective May 18, 2018.

Caspian is a Canadian-based junior oil and gas exploration and development company, with interests in the Republic of Kazakhstan, whose common shares are traded on the NEX sub-component of the TSX Venture Exchange under the symbol "CKZ.H".

References to "we", "us" and "our" in this MD&A are to the Company and all references to dollars are in Canadian dollars, unless otherwise indicated. Additional information relating to the Company, including its annual information form, is available on SEDAR at www.sedar.com.

Basis of presentation

These unaudited condensed interim consolidated financial statements, which present the Company's financial position for March 31, 2018 and financial performance as at and for the three months ended March 31, 2018 and 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in effect for the fiscal year beginning January 1, 2018.

Forward-looking statements and other information

This MD&A contains forward-looking statements. Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: the performance characteristics of the Company's oil and natural gas properties; drilling plans and the timing and location thereof; plans for the exploration and development of the North Block; plans for seismic acquisition and surveys; production capacity and levels, and the timing of achieving such capacity and levels; the level of expenditures for compliance with environmental regulations; the size of oil and natural gas reserves; projections of market prices and costs; supply and demand for oil and natural gas; expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development; and capital expenditure programs.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking statements contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A include, but are not limited to: volatility of oil and natural gas prices; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; geological, technical, drilling and processing problems; fluctuations in currency and interest rates; product supply and demand; risks inherent in the Company's foreign operations; changes in environmental and other regulations or the interpretation of such regulations; political and economic conditions in the Republic of Kazakhstan; and the other factors discussed in this MD&A.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are made as of the date hereof. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Non-IFRS measurements

The financial data presented has been prepared in accordance with International Financial Reporting Standards except for the measure "Operating Netback" contained in this document does not have a standardized meaning as prescribed by IFRS and is considered a non-IFRS measure. This measure has been described and is presented in this document in order to provide shareholders and potential investors with additional information regarding the Company's oil field operations in the Republic of Kazakhstan. It indicates the return the Company realizes upon lifting oil from the ground, less the pertinent burdens.

Basis of barrel of oil equivalent

For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent (boe) using 6,000 cubic feet ("6 mcf") equal to one barrel (6:1), unless otherwise stated. The boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore boe may be misleading if used in isolation. This conversion conforms to the Canadian Securities Regulators' National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities.

Business of the Company

After finalization of SPA on May 20, 2015 Caspian has a 100% share in Aral Petroleum Capital LLP ("Aral"), which is held by Caspian Energy Ltd. ("Caspian Ltd."), Groenzee BV (Groenzee), the Company's wholly-owned subsidiaries and by Caspian directly, so it has the right to explore and develop certain oil and gas properties in the Republic of Kazakhstan ("ROK") known as the North Block, a 1,467 square kilometre area located in the vicinity of the Kazakh pre-Caspian basin. The Company's strategy is to focus on the operations of Aral and the significant opportunity it presents in the North Block. See *Corporate overview and developments* where the details of the joint arrangement are more fully disclosed.

Aral's exploration and development rights in the North Block were granted pursuant to an exploration contract dated December 29, 2002 between Aral and the Ministry of Energy and Mineral Resources of the ROK (the "Exploration Contract").

Caspian accesses western capital markets and utilizes western technology to explore and exploit its Kazakh assets. The proceeds from its financing activities are used to finance its ongoing administrative expenses and when necessary fund the exploration program and support pilot production in the North Block. The operational strategy, executed through Aral, of Caspian is as follows:

- To prove-up the maximum amount of reserves with the minimum number of wells
- To utilize 3-D seismic and international standards and evaluation technology
- To focus initially on the East Zhagabulak area in the North Block, where the production exists, then move to the other areas within the North Block
- To position the Company to maximize value to the investor through development of the North Block
- To be aware of competitive efforts and resultant opportunities that may manifest themselves in the form of reserves/production acquisitions

The aforementioned strategies relate to future events and performance and are subject to uncertainties that may dictate a future change in strategy or cause actual results of the Company's operations to differ.

Kazakhstan's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the Country, a low level of liquidity of debt and equity securities in the markets and relatively high inflation. Additionally, the oil and gas industry in Kazakhstan is impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability are largely dependent upon the effectiveness of economic measures undertaken by the Government, together with legal, regulatory and political developments, which are beyond the Company's control. The financial condition and future operations of the Company may be adversely affected by continued uncertainties in the business environment of Kazakhstan. Management is unable to predict the extent and duration of these uncertainties, nor quantify the impact, if any, on the financial statements. Tax legislation and practice in Kazakhstan are in the developmental stage and therefore are subject to varying interpretations and frequent changes, which may be retroactive.

See "Forward-looking statements and other information".

East Zhagabulak (EZ), productive area

The Zhagabulak Area is located in the southeastern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 45 million barrels of oil in place with 10 million barrels classified as recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but is seeking to validate this data through its exploration program.

North Block, exploration area

Baktygaryn

The Baktygaryn Area is located in the northwestern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 17 million barrels of oil in place with 5 million barrels classified as recoverable. These Kazakh estimates were based upon the results of Soviet era 2-D seismic data and stratigraphic test wells. Caspian neither accepts nor denies these estimates, but seeks to validate this data through its exploration program.

Other areas within the North Block

Following are some of the other exploration areas within the North Block and their reserve estimates as put forth by the Government of Kazakhstan. Again, Caspian neither accepts nor denies these estimates, but seeks to validate this data through its exploration program: Aransai – 642 million barrels oil in place and 271 million barrels recoverable, Itasai-Kyrykkuduk – 225 million and 56 million and some others. The grand totals estimated by the Kazakh Government for all prospects in the exploratory area of the North Block are 1,414 million barrels oil in place and 381 million barrels oil recoverable.

Corporate overview and developments

The Company has put a primary focus on obtaining gas flaring/emission permits and extending the Exploration Contract in the Republic of Kazakhstan.

The ROK (Republic of Kazakhstan) MOG (Ministry of Oil and Gas, subsequently redesignated the Ministry of Energy) proposed a joint arrangement, which was subsequently executed, between Aral, JSC "KazTransGas" and number of other subsoil users. This arrangement called for the development of a Feasibility Study Report entitled "The Integrated Use of Associated Gas by the Subsoil Users of the Aktobe Oblast". The eventual outcome of the Feasibility Study was a plan is to build a Gas Processing Plant for the associated subsoil users, including Aral. This study manifested itself as "The Program of Development and Processing of Associated Gas in East Zhagabulak", valid for three years duration, which permits gas flaring during the calendar years 2014-2016, inclusive. Consent for the program was granted by the necessary state bodies and has been approved by the Ministry of Energy.

The program was extended for two more year until December 31, 2018. On 12 February 2018, the Company obtained a permission for gas utilization till 31 December 2018.

The East Zhagabulak field now has the status of being in the "development phase". Consequently, the issue of lengthy approval processes for work to be undertaken is historical. Work which may result in the emission of gas continues to have to wait until gas flaring/emission permits are procured. Non-gas related work to be undertaken includes the pulling out of a pump from Well 213 and isolation work, in Well 308, to deal with the problem of cementing in the wellbore.

On December 26, 2014 Aral signed Addendum no.9 to the Exploration Contract and received a four year extension for its Exploration License to December 29, 2018, provided that certain additional commitments under the Contract are discharged. The approved Minimum Work Program for the License period contains a financial commitment for eligible expenditures equal to US $58,303,000 – to drill 8 wells. Due to the very recent economic turmoil in the energy industry, Aral signed Addendum No. 11 to its Subsurface Use Contract No. 1081 that transferred the 2016 exploratory expenditures to further years and decreased Minimum Work Program to
US $45,168,000-to drill 6 wells. As a result the Company fulfilled its minimal commitments for 2016 in material respect. The Company does not fulfilled its 2017 minimal commitments, as a result a penalty in the amount of US$ 320,000 is expected in May-June 2018. The Company has made a proper accruals of that amount in its financials.
During 2018 the Company should drill 3 wells and spend on the exploratory activity US$13,787,000.

During the second quarter of 2017 the Company has shut down its 2 out of 3 producing wells due to technical reasons. As a result production during 2017 has decreased significantly to 264 bbl/day. During 2017 and 1Q 2018 one well was repaired successfully. As a result production of the Company has increased. Currently the Company produce from 2 wells and daily production is equal to 430 bbl/day.

On May 4 2018 the Company's shareholders voted in favor to delist the Company from the stock exchange. The main aim of the delisting process is to decrease the administrative expenses of the Company. The delisting process should be finalized by the end of June 2018.

During 2015 and 2016 several Aral's creditors initiated litigations in Kazakh courts against Aral in respect of overdue trade payables. The most significant among them are Batys-Munai LLP, Great Wall LLP and CNLC LLP claims. Aral has settled part of debts due as a result of those litigations and negotiated the repayment schedules with major creditors. As of May 18, 2018 there are no any blocks and restrictions placed on Aral's property and bank accounts by the trade creditors.

Between May 5 and May 6 2016, Canadian securities regulatory authorities issued cease trade orders pertaining to the trading of the Company's securities as it had not filed its December 31, 2015 audited consolidated financial statements and management discussion and analysis. Caspian's securities were cease-traded by each of the ASC, the British Columbia Securities Commission between May 5 and May 6, 2016. The filings were due on April 30, 2016 and were not filed as a result of a delay in receiving financing from the shareholder and the resulted nonpayment of the professional fee to auditors. Cease trade orders were revoked in June 2016.

In March 2016, pursuant to the Share Purchase Agreement, Asia Sixth increased its equity ownership interest in Company to approximately 59.9% by acquiring 122,879,055 common shares of the Company from Meridian and its affiliate YF Finance Limited, being all of the shares held directly and indirectly by Meridian. As contemplated by the Share Purchase Agreement, the parties also effected certain ancillary transactions, including the novation of all rights and obligations of Meridian Sixth Energy relating to the USD 61.5 million secured loan facility between Aral, Asia Sixth and Meridian.

Summary of consolidated results

($000's except per share and production information)	Three months ended March 31 2018	Three months ended March 31 2017
Oil and Gas Sales, net of royalties	423	947
Net income (loss) [1]	(645)	(57)
Per share - basic	(0.00)	(0.00)
Per share - diluted	(0.00)	(0.00)
Production (Bpd)	153	361
Cash flow from operating activities	(400)	551
Per share - basic	(0.00)	0.00
Per share - diluted	(0.00)	0.00
Weighted Average Shares – Basic	463,658	463,658
Weighted Average Shares – Diluted	463,658	463,658
Total assets	43,336	51,682
Total net working capital [2]	(27,514)	(29,098)

(1) "Total net working capital" is calculated as current assets less current liabilities.

Summary of Selected Quarterly Results ($000's - except sales volumes/prices) Presenting Caspian's Share of Aral's Operations

Period	2Q-2016	3Q-2016	4Q-2016	1Q-2017	2Q-2017	3Q-2017	4Q-2017	1Q-2018
Oil and gas sales – Boe/d	418	762	401	358	325	178	194	157
Oil and gas sales price – per Boe	18	27	28	30	30	27	27	30
Oil and gas revenues, net	695	2,134	1,006	947	897	432	474	423
Operating costs	567	790	561	592	540	442	817	386
Transportation costs	-	-	-	-	-	-	-	-
Operating netback	128	1,344	445	355	357	(10)	(343)	37

Oil and gas revenue fluctuates over the eight quarters, reflecting changes in production volumes combined with great volatility in commodity selling prices.

Quarterly financial information

The following table sets forth selected financial information of the Company for the eight most recently completed quarters.

(000's)	**2018 Q1**	**2017 Q4**	**2017 Q3**	**2017 Q2**
Revenue	423	474	432	897
Expenses/gain	(1,068)	(9,974)	(21)	(2,775)
Net earnings (loss)	(645)	(9,500)	411	(1,878)
Per share – basic/diluted ($/share)	(0.00)	(0.02)	0.00	(0.00)
Cash flow used by operating activities	(400)	(313)	(664)	(174)
Per share – basic/diluted ($/share)	(0.00)	(0.001)	(0.00)	(0.00)
Weighted avg. shares outstanding	463,658	463,658	463,658	463,658
Total assets	43,336	40,501	43,813	48,471
Total liabilities	75,490	71,732	66,348	69,329
Share capital	183,035	183,035	183,035	183,035

(000's)	**2017 Q1**	**2016 Q4**	**2016 Q3**	**2016 Q2**
Revenue	947	1,006	2,134	695
Expenses	(1,004)	2,430	(1,604)	(1,327)
Net earnings (loss)	(57)	3,436	530	(632)
Per share – basic/diluted ($/share)	(0.00)	0.01	0.00	(0.00)
Cash flow used by operating activities	551	(1,680)	966	(1,294)
Per share – basic/diluted ($/share)	0.00	(0.00)	0.00	(0.00)
Weighted avg. shares outstanding	463,658	463,658	463,658	463,658
Total assets	51,682	49,385	37,833	36,316
Total liabilities	71,186	69,115	61,048	59,635
Share capital	183,035	183,035	183,035	183,035

General and administrative expenses ("G&A")

(000's)	Three months ended May 31 2018	Three months ended May 31 2017
Total G&A expenses	255	218

Finance expense

($000's)	Three months ended May 31 2018	Three months ended May 31 2017
Interest expense	689	670
Net foreign exchange (gain) loss	(367)	(922)
Net finance expense/(gain)	322	(252)

Under IFRS, finance costs include financing, foreign exchange and accretion costs. Interest was incurred on the Loans from Asia Dynamic and Sixth Energy mainly. Foreign exchange losses were realized as the denomination of the Company's and Aral external Loans are mainly denominated in US dollars, which dollar fluctuates in value versus the Canadian dollar.

Cash from operating activities and net loss

In the first quarter of fiscal 2018 the Company recorded a net loss of $645 compared to a net loss of $57 for the same period in fiscal 2017. The increase in the loss amount is mainly due to decreased revenue resulted from shut in of 2 wells. On an earnings per share basis, the Company had a $0.00 per share loss in the both periods. For the first quarter 2018, cash flow used by the operating activities was $400, in the first quarter 2017 cash flow provided by the operating activities was $551. The main reason for the worsened cash flow is the decreased production.

Weighted common shares outstanding ($000's, except per share amounts)

	Three months ended May 31 2018	Three months ended May 31 2017
Basic	463,658	463,658
Diluted	463,658	463,658
Income (loss) per share basic	$(0.00)	$(0.00)

Liquidity and capital resources

Caspian finances its operations through equity sources and loans until its shareholdings in Aral begin to pay dividends.

Advances under the anticipated US$61.5 million secured facility, a component part of the SPA, are subject to the complete discretion of the lenders there under. In addition, the lenders must provide their consent prior to any loan proceeds advanced under these loan facilities being used by Caspian to fund its ongoing overhead expenditures.

There is no assurance that the lenders under the secured facility will have the funds required to fulfill their respective obligations under such arrangements, or exercise their discretion to make advances under that facility. In the event the lenders under the secured facility do not consent to their loan proceeds being used to pay ongoing overhead expenditures, Caspian may be subject to various potential insolvency proceedings, including the possible liquidation of its assets.

The Company reported net loss of $645,000 and negative funds generated from operating activities of $400,000 for the quarter ended March 31, 2018. The Company had a net working capital deficiency of $27,514,000 and a cumulative deficit equal to $32,154,000 at period end.

Components of the working capital figures are contained in the following table:

($000's)	Three months ended March 31 2018	Year ended December 31 2017
Cash and cash equivalents	314	126
Accounts receivable	2,102	1,972
Inventory	76	93
Loans payable	(334)	(327)
Accounts payable and accrued liabilities	(29,672)	(27,977)
Total working capital (deficit)	(27,514)	(26,113)

The Company's operations continue to consume cash. As it has in the past, the Company will seek to rely on sources other than Aral, to provide any working capital requirements for the foreseeable future.

Caspian's business is capital intensive, requiring cash infusions on a regular basis as it seeks to explore and exploit, through Aral, its exploration license in the Republic of Kazakhstan. Through Aral, the Company is actively discharging its exploration expenditure undertakings, and as a consequence, the demand for cash will not diminish in the short-run and cash flow is expected to continue to be negative for the foreseeable future.

The Company is not expected to be profitable during the ensuing twelve months and therefore must rely on securing additional funds from either the issuance of debt or equity financing for cash consideration.

The Company's use of cash may increase in the future in order to assure that Aral meet its exploration contract commitments. The Company will continue to review the prospects of raising additional debt and equity financing to support its operations at least until such time that its operations become self-sustaining. To enhance liquidity within Aral, the stakeholders of Aral (including Caspian) have also verbally agreed not to "call" any of the advances due to them by Aral. While the Company is using its best efforts to raise financing, there is no guarantee that it will be able to do so or that Asia Sixth will not enforce the loan due to it from Aral.

Capitalization

	March 31, 2018
Common shares outstanding	463,657,593
Options	-
Consideration warrants	-
Total	463,657,593

Contractual obligations

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

On December 26, 2014 Aral signed Addendum no.9 to the Exploration Contract and received a four year extension for its Exploration License to December 29, 2018, provided that certain additional commitments under the Contract are discharged. The approved Minimum Work Program for the License period contains a financial commitment for eligible expenditures equal to US $58,303,000 – to drill 8 wells. Due to the very recent economic turmoil in the energy industry, Aral signed Addendum No. 11 to its Subsurface Use Contract No. 1081 that transferred the 2016 exploratory expenditures to further years and decreased Minimum Work Program to US $45,168,000-to drill 6 wells. As a result the Company fulfilled its minimal commitments for 2016 in material respect. The Company does not fulfilled its 2017 minimal commitments, as a result a penalty in the amount of US$ 320,000 is expected in May-June 2018. The Company has made a proper accruals of that amount in its financials. During 2018 the Company should drill 3 wells and spend on the exploratory activity US$13,787,000.

Financial instruments and capital disclosures

Financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Due to the short term nature of the financial instruments, their carrying amounts equate to their fair value amounts.

The Company does not have sufficient resources to fund its day to day operations to the end of fiscal 2017. The Company anticipates additional financing will come in the form of equity and/or debt financing.

Related party transactions

The Company has not entered into any related party transactions, other than disclosed in the notes to the financials.

Off balance sheet arrangements

The Company has not entered into any off balance sheet arrangements.

Financial and operational risks

Prices, markets and marketing of crude oil and natural gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Company. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices. All of these factors could result in a material decrease in the Company's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. A sustained material decline in prices from historical average prices could negatively impact the Company's ability to refinance its Convertible Debentures and obtain other financing.

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has limited direct experience in the marketing of oil and natural gas.

Interest rate risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact the floating rate on borrowing and deposits. The Company has not entered into any interest rate swaps or financial contracts.

Business risks

An investment in the Company should be considered highly speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas reserves and its current stage of development. Oil and gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

The Company reported net loss of $645,000 and negative funds generated from operating activities of $400,000 for the quarter ended March 31, 2018. The Company had a net working capital deficiency of $27,514,000 and a cumulative deficit equal to $32,154,000 at period end.

Exploration, development and production risks

Oil and natural gas exploration involves a high degree of risk, which evens a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of the Company will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Insurance

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities or other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable.

Competition

The petroleum industry is competitive in all its phases. The Company competes with numerous other participants in the search for the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. The Company's competitors include oil companies which have greater financial resources, staff and facilities than those of the Company. The Company's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods of reliability of delivery.

Permits and licenses

The operations of the Company may require licenses and permits from various governmental authorities. There can be no assurance that the issuer will be able to obtain all necessary license and permits that may be required to carry out exploration and development at its projects.

Delays in business operations

In addition to the usual delays in payments by purchasers of oil and natural gas to the Company or to the subsidiaries, and the delays by subsidiaries in remitting payment to the Company, payments between these parties may be delayed due to restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connections of wells to a gathering system, adjustment for prior periods, or recovery by the subsidiary of expenses incurred in the operation of the properties. Any of these delays could reduce the amount of cash flow available for the business of the Company in a given period and expose the Company to additional fourth party credit risks.

Seasonality

The level of activity in the oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, governmental departments may enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Company.

Income taxes

The Company will file all required income tax returns and believes that it will be in full compliance with the provisions of the *Income Tax Act* (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company, such reassessment may have an impact on current and future taxes payable.

Third party credit risk

The Company is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers or its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company and its cash flow from operations.

Changes in legislation

The return on an investment in securities of the Company is subject to changes in Canadian federal and provincial tax laws and government incentive programs and there can be no assurance that such laws or programs will not be changed in a manner that adversely affects the Company of the holding and disposing of the securities of the Company.

Reserve replacement

The Company's future oil and natural gas reserves, production and cash flows to be derived there from are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on the Company's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Company's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reserves

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived there from, including many factors that are beyond the control of the Company. The reserve and cash flow information represents estimates only. The reserves and estimated future net cash flow from the Company's oil and gas assets have been independently evaluated effective December 31, 2017 by McDaniel & Associates Consultants Ltd. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived there from will vary from these evaluations, and such variations could be material. The foregoing evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived there from contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

Substantial capital requirements: liquidity

The Company anticipates that it will make substantial capital expenditures for the acquisition, exploration and development and production of oil and natural gas reserves in the future. If the Company's revenues or reserves decline, as a result of lower oil and natural gas prices or otherwise, the Company may have limited ability to expend the capital necessary to undertake or complete future drilling programs to replace its reserves or to maintain its production. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Additional funding requirements

From time to time, the Company may require additional financing in order to carry out its oil and gas acquisitions, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Moreover, future activities may require the Company to alter its capitalization significantly, which may impact its financial condition.

Issuance of debt

From time to time the Company may enter into transactions to acquire assets or the shares of other Companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Depending on the future exploration and development plans, the Company may require additional equity and/or debt financing which may not be available or if available, may not be available on favorable terms.

Dilution

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive.

Environmental risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and other laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of the applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and fourth parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Reliance on key employees

Company's success depends in large measure on certain key executive personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretions, integrity and good faith of the management of the Company.

Application of critical accounting estimates

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in these judgments and estimates may have a material impact on the Company's financial results and condition. The Company's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts, that differ materially from current estimates.

The following assessment of critical accounting estimates is not meant to be exhaustive. The Company might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

Internal controls over financial reporting

As a result of the Company and Aral's limited administrative staffing levels, internal controls which rely on segregation of duties in many cases are not possible. Neither the Company nor Aral have the resources, size and scale to warrant the hiring of additional staff to address this potential weakness at this time. To help mitigate the impact of this, the Company is highly reliant on the performance of compensating procedures and senior management's review and approval.

As a venture issuer, the Company is not required to certify the design and evaluation of its disclosure controls and procedure ("DC&P") and internal controls over financial reporting ("ICFR"). Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 *Certification of Disclosure In Issuers' Annual and Interim Filings* may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Oil and gas reserves

Under NI 51-101, “Proved” reserves are those reserves that can be estimated with a high degree of certainty to be recoverable (it is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves). In accordance with this definition, the level of certainty targeted by the reporting company should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated reserves. In the case of “Probable” reserves, which are less certain to be recovered than Proved reserves, NI 51-101 states that it must be equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves. With respect to the consideration of certainty, in order to report reserves as Proved plus Probable, the reporting company must believe that there is at least a 50 percent probability that quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable reserves.

Oil and gas reserves estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company’s plans. The reserve estimates are also used in determining the Company’s borrowing base for its credit facilities and may impact the same upon revisions or changes to the reserves estimates. The effect of changes in reserves on the financial results and position of the Company is described under the heading “Accounting for Oil and Gas Activities”.

Aral’s ability to remain solvent

Advances under the Aral Loan are subject to the complete discretion of the lenders there under. In addition, the lenders must provide their consent prior to any loan proceeds advanced under these loan facilities being used by Aral to (i) repay liabilities existing as at the date of closing of the SPA Transactions, or (ii) make expenditures not contemplated by Aral’s annual budget (such budget to be acceptable to the lenders under the Aral Loan).

There is no assurance that the lenders under the Aral Loan will have the funds required to fulfill their respective obligations under such arrangements, or exercise their discretion to made advances under the Aral Loan at all. In the event Aral’s creditors enforce their rights to be paid and the lenders under the Aral Loan exercise their discretion to not make advances to Aral when requested, or the lenders under the Aral Loan do not consent to their loan proceeds being used to pay such creditors, then Aral may be subject to various potential insolvency proceedings, including the possible liquidation of its assets.

Security under the Aral Loan

In connection with the establishment of the Aral Loan, the Company granted Meridian and Sixth Energy a security interest over all of the Company’s direct and indirect interest in Aral and its assets. If Aral should default on its obligations under the Aral Loan, Meridian and Sixth Energy could enforce their security which could result in, among other things, a forced sale or foreclosure of the Company’s direct and indirect interests in Aral as well as Aral’s assets and, in such event, the Company would be unable to continue Aral’s business and operations.

Outstanding obligations of Aral

Aral is currently indebted to certain unsecured third parties, which liability will remain the responsibility of Aral and the Company. To continue Aral's operations, the Company will require the cooperation of its lenders and trade creditors to, among other things, not demand repayments of principal, interest and/or trade payables outstanding until the business is capable of making such payments. The Company cannot be certain that Aral's future cash flow from operations will be sufficient to allow it to pay principal and interest on such debt and meet other trade payables and obligations. If cash flow from operations is insufficient, the Company may be required to refinance all or part of Aral's existing debt, sell assets, borrow more money or issue additional equity.

Approval of the Government of Kazakhstan and limitation on Company's ability to issue securities

The prior approval of the relevant regulatory body of the Kazakhstan Government, namely, the Ministry of Energy, has to be obtained in the event that the Company attempts to sell or otherwise transfer (i) any subsoil use rights under its Kazakh subsoil use contracts or (ii) any shares or other equity interest in (A) a legal entity holding a Kazakh subsoil use right or (B) a legal entity which may directly or indirectly make decisions and/or exert influence on decisions adopted by a Kazakh subsoil user if the main activity thereof is associated with subsoil use in Kazakhstan.

Caspian may not issue any securities, including common shares from treasury without such prior of the Ministry of Energy of Kazakhstan, which may be lengthy to obtain. This might somewhat delay the Company's ability to raise funds in the future.

Certain past issuances of securities by the Company did not comply in all respects with the requirements referred to above. Any enforcement of any right to terminate a subsoil use contract in relation to any such past issuances made by the Ministry of Energy of Kazakhstan would have a material adverse effect on the Company's business, financial condition and results of operations.

Foreign directors and officers

All of the directors and officers of the Company reside outside of Canada. It may not be possible for investors to effect service of process against directors and officers of the Company who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more directors or officers of the Company for violations of Canadian corporate or securities civil liability laws, it may not be possible to enforce that judgment against directors and officers of the Company not resident in Canada.

Conflicts of interest

Certain of the directors and officers of the Company are or may become directors or officers of, or have significant shareholdings in, other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. Such other companies may also compete with the Company. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of the directors of the Company and will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not the Company will participate in a particular transaction, the directors will primarily consider the potential benefits to the Company, the degree of risk to which the Company may be exposed and its financial position at that time.

Income tax accounting

The determination of the Company’s income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Accounting for oil and gas activities

Carrying value of property, plant and equipment

Development and production assets within property, plant and equipment are depreciated, depleted and amortized using the unit-of-production method based on estimated proved and probable reserves determined using estimated future prices and costs. There are a number of inherent uncertainties associated with estimating reserves. By their nature, these estimates of reserves, including the estimates of future prices and costs, and related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined and when technical feasibility and commercial viability has been reached. Estimates and assumptions may change as new information becomes available.

Decommissioning liabilities

Decommissioning costs are incurred when certain of the Company's tangible long-lived assets are retired. Assumptions, based on current economic factors which Management believes are reasonable, have been made to estimate the future liability. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. The impact to net earnings over the remaining economic life of the assets could be significant due to the changes in cost estimates as new information becomes available. In addition, the Company determines the appropriate risk-free discount rate at the end of each period to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

Impairment of assets

The recoverable amounts of CGU's and individual assets have been determined as the higher of the CGU's or the asset's FVLCTS and its VIU. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates as well as future development and operating costs. Changes in assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU's.

Share based payments

The Company uses the fair value method for valuing stock options and warrants. Under this method, as new options are granted, the fair value of these options will be expensed over the applicable vesting period, with an offsetting entry to contributed surplus. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of subjective assumptions including expected stock price volatility.

Legal, environmental remediation and other contingent matters

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.