CASPIAN ENERGY INC.

Amended and Restated Management's Discussion and Analysis

February 4, 2013, – The following Amended and Restated Management's Discussion and Analysis ("MD&A") of financial results as provided by the management of Caspian Energy Inc. ("Caspian" or the "Company") should be read in conjunction with the Amended and Restated unaudited condensed interim consolidated financial statements and selected notes for the three and nine months ended September 30, 2012 and the audited consolidated financial statements and notes for the years ended December 31, 2011 and 2010. This commentary is based upon information available to February 4, 2013.

The intention of this MD&A is for Caspian to explain to its shareholders and the investment community three analyses from management's perspective:

1. Caspian's performance in fiscal 2012;
2. Caspian's current financial condition; and
3. Caspian's future prospects.

This MD&A complements and supplements the disclosures in our Amended and Restated unaudited condensed interim consolidated financial statements which have been prepared according to International Financial Reporting Standards ("IFRS").

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 Preparation

The financial statements, MD&A and comparative information have been prepared in Canadian dollars unless otherwise indicated and in accordance with International Financial Reporting Standards ("IFRS").

FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION

This MD&A contains non-IFRS financial measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-IFRS Financial Measures" and "Forward-Looking Statements". Certain statements contained in this MD&A constitute forward-looking statements. Forward-looking statements are included under "Business Prospects and Outlook" and elsewhere in this MD&A. 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.

Finally, in the presentation of the MD&A, Caspian uses terms that are universally applied in analyzing corporate performance within the oil and gas industry, but which regulators require that we provide disclaimers.

Barrel of Oil Equivalent (BOE) – The oil and gas industry commonly expresses production volumes and reserves on a "barrel of oil equivalent" basis ("BOE") whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for

improved analysis of results and comparisons with other industry participants. Throughout this MD&A Caspian has used the 6:1 BOE measure which is the approximate energy equivalency of the two commodities at the burner tip. BOE does not represent a value equivalency at the plant gate, which is where Caspian sells its production volumes, and therefore may be a misleading measure if used in isolation.

Non-IFRS Measures – 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 measures has been described 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 one barrel of oil from the ground, less the pertinent burdens.

A PRECIS OF CURRENT ACTIVITY

Currently, well EZ #301 is shut-in.

EZ #213 is currently shut-in. Due to an electrical failure, the downhole pump in EZ #213 ceased working on June 6, 2012. Subsequently, while pulling the pump for remedial action, the cable broke resulting in fish in the hole. On September 2, 2012, during the fishing operation, the fish (39 pieces of tubing, 354 metres of cable and the electronic submersible pump) were "lost" and dropped to 4,211 metres. Fishing operations have resumed.

Completion of construction and commissioning of the gas pipeline to transfer gas to the Alibekmola Gas Processing Plant is expected to occur during December 2012. Concurrently, the pilot production stage will end and the development stage will begin in East Zhagabulak.

Well EZ #308 spud on July 16, 2011. Production casing was set to 4,775 metres. Electronic logging operations have identified substantial intervals of possible pay in the KT-I zone and an additional 88 metres of net pay in the KT-II.

On March 26, 2012, the KT-II zone was perforated from 4,500 - 4,668 metres. Four horizons, consisting of 15 pay stringers, were perforated. Total thickness of the stringers is about 80 metres.

The well was acidized in an attempt to stimulate production. A downhole pump was installed to lift fluid from the well bore. Currently, the daily oil production rate is 55 barrels with a water cut equal to 86%. Planning and remedial action are underway to "pinch-off" the formation water and increase the oil cut.

Well 306 spud on January 9, 2012. It is intended to delineate the southern extent of the discovery and further confirm the considerable value of the East Zhagabulak field. The geological conditions for Well 306 are the same as for the recently drilled Well 308, targeting the same hydrocarbon bearing horizons; KT-I at a depth of 3,360 to 3,879 metres and KT-II at 4,070 to 4,700 metres.

Well 306 reached target depth during July 2012. Log results confirmed the presence of pay zones in both the KT-I and KT-II. Four prospective intervals were selected for testing with a total thickness of 145 metres. Two KT-II intervals were identified (4,605.9 - 4,661 metres and 4,557.4 - 4,585.9 metres). Additionally, an inter-carbonate, sedimentary stratum, in the interval 4,223.9 - 4,235 metres together with the KT-I horizon at the interval 3,563 - 3,667 metres will be tested. Production casing was set in the well to a depth of 4,780 metres.

The RK MOG (Republic of Kazakhstan, Minister of Oil and Gas), has granted a gas flaring permit valid until September 29, 2013.

Sakramabas #316 spud on July 22, 2011. This well encountered net pay zones aggregating 184.8 metres and equates to a new discovery well in the West Zhagabulak field of Kazakhstan.

Following successful logging, Well 316 has been cased to a depth of 4,950 metres.

While testing the interval 4,346 - 4,352 metres, the well flowed at an estimated rate of 78 Bopd. Based on the results of testing, a submission was made to the RK MOG requesting the recognition of the discovery of a new oil pool. The RK MOG Expert Commission confirmed the discovery and requested Aral to prepare the necessary documents to extend the Exploration Contract in the North Block for an additional two years (2013 and 2014).

Testing is ongoing and Aral is engaged in preparing the necessary design-project documents for extension of the Contract.

The rig which drilled Well 316 to total depth in the West Zhagabulak field, was immediately mobilized to East Zhagabulak, where it set surface casing on Well 315 on May 9, 2012. If successful, Well 315 will result in the material conversion of P3 (possible) reserves to P2 (probable) reserves.

Well 315 has reached the target depth, 4,743 metres and is awaiting testing.

On October 2, 2012, 787,212 common shares and 393,606 share purchase warrants were issued to satisfy the 3Q 2012 interest obligation on the Company's Convertible Debentures. The deemed price of the stock issued is $0.102798 per share and the warrant exercise price is $0.140672.

On January 9, 2013 1,286,684 common shares and 643,342 share purchase warrants were issued to satisfy the 4Q 2012 interest obligation on the Company's Convertible Debentures. The deemed price of the stock issued is $0.063769 per share and the warrant exercise price is $0.087263.

Pursuant to the pronouncements of IFRS, Caspian's convertible debentures constitute a financial liability with an embedded derivative (which is the conversion feature of this

instrument). Revaluation of the derivative component of the Company's Convertible Debentures from the beginning of the fiscal year to quarter end has resulted in an unrealized gain equal to $2,126,827 as the fair value of the conversion option has decreased due to the deteriorating market value per share of the Company's common shares.

During 2007, Aral had a dispute with its drilling subcontractor, Nabors, in relation to a mechanical failure at the drilling site that resulted in the loss of the well and the re-drilling of an interval of the well. Nabors made a claim for compensation in excess of what Aral believed was appropriate. Aral viewed Nabors as responsible for the failure. The matter was under negotiation and the amount of possible cash outflows was not then determinable.

The negotiations were unsuccessful and on October 25, 2011, the Specialized Inter-District Economical Court of Almaty City found in favour of Nabors and ordered Aral to pay the equivalent of approximately US$3.2 million to Nabors. Aral appealed this decision and on December 28, 2011, the Almaty City Court (Appellate Collegium) upheld the lower court's decision.

During August 2012, the Company was informally advised that Nabors' action against it is being upheld. Caspian is required to fund approximately US$1.6 million of Aral's obligation to Nabors pursuant to an indemnity in favour of Asia Sixth.

On August 21, 2012, the Company announced the appointment of Mr. Roger Nutt as senior consultant to the Company. Mr. Nutt is a petrophysical consultant with 50 years experience in the industry specialising in wireline logging Mr. Nutt has now visited the Company's operations in the Republic of Kazakhstan and spent significant time analysing the data with assistance from Caspian and its partners Aral Petroleum Capital LLP's and Asia Sixth. Mr. Nutt was given access to all the information available on the logs, core data and Spectral Gamma Rays (SGR) from Wells 301, 302, 303, 306, 308 and 316.

It is the belief of Mr. Nutt that the carbonate host rock is fractured, and the evidence shows that it is also almost certainly karstic. Mr. Nutt believes that these fractures and karstic intervals will contain oil and that if the wells are completed in a manner more appropriate to the true nature of the reservoir, subject to the next point they could produce oil at an improved rate.

It is the belief of Mr. Nutt that the data examined has demonstrated that the geology is not a normal, conventional reservoir. Mr. Nutt is of the opinion that the reason for the disappointing flow rates achieved to date is that all the wells drilled so far have been completed on the false premise that the rock is a normal, conventional, permeable formation, in which oil flows to the wells between the rock grains. In fact, it is the view of Mr. Nutt, that the rock is impermeable to the extent that very little oil can be extracted from the drilling techniques adopted to date.

Mr. Nutt believes that to achieve the full potential of these wells, each well must be perforated at the depths which will give access to the relevant fractures or karsts. These depths are currently being established. Each perforated interval must then be mini-fractured and propped open, to allow the oil access from the reservoir to the well-bore perforations, through the cement around the casing.

To effect a better understanding of the strategy inherent in Mr. Nutt's hypothesis or philosophy, certain queries were presented to him. The responses have been incorporated into the brief narrative following, to provide insight and comprehension to the Company's shareholders as to what effect Mr. Nutt's theories may have on the Company's oil and gas operations.

The production rates in Caspian's Zhagabulak wells have not met initial expectations. This circumstance is not a consequence of current drilling techniques, but rather relates to historical completion methods, which have focused exclusively on perforating intervals which appear to have the greatest matrix porosity and (by inference) improved matrix permeability. The matrix permeability of the vast majority of the Carboniferous carbonate in Zhagabulak is less than 1 mDarcy, usually much less than 1 milliDarcy. Occasional core plugs exhibit matrix permeabilities of several milliDarcies, but these are rare, and generally not interconnected (adjacent). Perforating intervals which appear to have the greatest matrix porosity has occasionally resulted in perforation of (or near) a fracture, which has resulted in significant oil production from the fracture and associated fracture network. A fracture which is too small to be identified during drilling, or from standard open-hole logs, can easily produce several hundred barrels of oil per day initially.

Instead of deliberately avoiding the natural fractures and permeability pathways in the rock – which has historically been the case in Zhagabulak – the new approach is to identify and selectively perforate these intervals, to allow the oil they contain to be recovered.

Permeability is the propensity or ability of the rock to allow fluid migration through itMost rocks which constitute reservoirs for hydrocarbon possess two types of permeability.

The rocks themselves are constructed of grains of a hard, impermeable material which are cemented together or *lithified.* Between these grains are holes or *pores* in which the hydrocarbon has collected. The hydrocarbon migrates through the rock between the interconnecting pores: this is known as ***matrix permeability***.

The vast majority of rocks are also cracked. The cracks in the rock are called *fractures.* These fractures may constitute the majority of the rock permeability: they enable the rock to release its hydrocarbon at a rate much greater than could be expected from the matrix permeability alone.

In addition to these (common) types of permeability, some rocks – especially carbonates - can contain other reservoirs of hydrocarbon, and these reservoirs can flow at almost unprecedented rates. Examples of these unusual reservoirs are solution channels, caves and caverns, which are very frequently found in carbonate rocks.

In the Zhagabulak field, the matrix permeability is so small that the flow of hydro-carbon (oil) from it is none (or insignificant). Existing wells in this area have nevertheless been drilled and completed as if the rock matrix permeability is the sole source of producible hydrocarbon. Although there is clearly oil in this rock, historical efforts have therefore failed to release it.

The reservoir appears to be severely fractured, and it may also contain solution channels, caves and caverns. These phenomena are readily identified by a competent petrophysicist using appropriate data (logs, cores, etc.). Perforation of the casing at different places, and completions designed to put high permeability zones into communication with the well-bore, should result in dramatically improved oil production from the existing wells. If this is borne out in practice, it should be possible to modify the drilling and completion techniques of future wells to take more advantage of the natural permeability channels in this rock.

In Caspian's Carboniferous carbonate reservoirs, the most permeable zones are very frequently washed out to a large diameter as a result of the drilling process. Cementation of the casing then fills this void between the casing and the very permeable, oil-bearing intervals with impermeable cement. When these intervals are perforated, the perforations will not necessarily penetrate through the cement to put the permeable zones into communication with the holes which have been made in the casing. What is then needed is a process of fracturing the cement, between the perforations and the permeable pathways in the rock, to enable the oil to reach the casing.

The term *fracturing* is used somewhat indiscriminately in the oil business to mean cracking of the rock matrix, sometimes for great distances, to enable a matrix with poor inherent permeability to be connected via the induced fracture (which has much greater permeability) to the casing via the perforations.

The term *minifracturing* has been employed to convey the idea that its only purpose is to open up the cement so that the naturally high permeability intervals within the rock can communicate with the well-bore through the cement. It requires a small amount of fracturing fluid, small quantities of proppant, and very little pumping capacity. It is therefore a great deal cheaper than the standard process of *fracturing* a reservoir which has poor matrix permeability. In a process of this type (*mini*fracturing), it is only the cement which is being fractured. The fracturing fluid cracks open the cement from the ends of the perforation tunnels to the natural permeability channels which already exist in the rock. No tools are used to determine this (none are needed).

The cement sheath is not merely inches in thickness. The solution channels, fractures, and karstified intervals which may produce prolifically are naturally open – or opened up by the drilling process – sometimes beyond the range of the recorded callipers, so that there may easily be a foot or more of cement between the casing and the permeability pathway. The objective of the new approach is to deliberately perforate those intervals which appear to be highly permeable, i.e. the fractures, faults, solution channels, and karsts, insofar as these can be identified from logs. The solution channels and other highly permeable characteristics are not "quite distant" from the immediate well-bore area: they intersect it. The mini-fracturing process naturally connects the casing perforations to the existing permeability (the fracturing fluid preferentially splits the cement between the perforations and the adjacent high permeability channels).

On January 14, 2013, the Company reported that the Exploration license which governs the majority of the acreage, commonly referred to as the North Block, has been extended for a further two years up until December 2014.

This extension is Addendum No.7 to the original Contract No.1081 dated December 29, 2002. The granting of this extension reflects the fact that a new discovery was declared in West Zhagabulak, with the completion of well 316 in mid-2012. This extension allows time for the Company to evaluate this new discovery and to commence exploration activity in other parts of the North block outside of the Zhagabulak area.

In line with Company strategy and the minimum Work Program associated with this extension, a new well will be drilled this year and a second well in 2014.

Additionally, the Company has the necessary documentation approved by RK MOG that permits drilling activity in 2013-2014. This refers specifically to drilling a pre-salt well in the area of Baktygaryn (Baktygaryn No.11) as well as a post-salt well in the area of Itassay (Itassay No.26). Approval has also been granted to shoot additional 3D seismic

over both the Aransay and Itassay areas. Tenders for drilling Baktygaryn, Itassay No.26 and the associated 3D seismic activity have been let.

BUSINESS OF THE COMPANY

Caspian has a 40% interest in Aral Petroleum Capital LLP ("Aral"), which is held by Caspian Energy Ltd. ("Caspian Ltd."), the Company's wholly-owned subsidiary, through which 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 1,549 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.

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"). Under the terms of the Exploration Contract, Aral agreed to spend at least USD20.8 million under a minimum work program in respect of the North Block, during the initial three-year term of the contract. Eligible expenditures include such things as processing and reinterpretation of geological and geophysical data of prior years, two dimensional and three dimensional seismic surveys, drilling exploration wells, well reactivations and well surveys and testing. As discussed below, funds raised by the Company are used to discharge the obligations of Aral relating to the minimum work program. As at December 31, 2005, Aral's financial obligation under the minimum work program had been discharged in full. Further, Aral undertook to expend USD12.2 million by the close of calendar 2006, which undertaking was also discharged. The initial term of the Exploration Contract was extended for a two-year period through to December 2007, and subsequently through December 2009. The work program extension to December 2007 included drilling three wells to a combined total of 8,500 metres with a monetary obligation of USD20.6 million. The 2008 work program committed the Company to undertake USD8.5 million of exploration expenditures prior to the close of the calendar year and the 2009 work program – USD10.6 million. As at December 31, 2007, Aral had incurred USD119.7 million in charges related to the work commitments of the Minimum Working Program agreed with the ROK competent bodies. At that point, shortfalls under the Work Commitments aggregated USD7.1 million. Management of Aral believed the Company was in compliance with its commitments under the Minimum Working Program and received authorization from the Ministry of Energy and Natural Resources and other competent bodies to carry over fulfillment of the above shortfalls to the year ending December 31, 2008. At December 31, 2008, Aral had discharged these obligations having incurred USD138.5 million in charges related to the work commitments of the Minimum Working Program. During the first quarter of 2009, Aral's request for a three year extension (through December 2012) to the exploration period for the North Block contract was approved by all the required ROK regulatory bodies. Concurrent with the extension, the proposed 2009 minimum work commitment was increased from USD10.5

million to USD38.9 million. On November 25, 2009, during a Zapkaznedra ITD Technical Council (the regulatory body) session, the Council decreed that the Aral Petroleum Capital LLP Updated Work Program has financial obligations of USD 21.4 million. Aral has a 2009 deficiency in qualifying expenditures equal to USD 11.0 million, which the Council has agreed to defer to future periods. Also, the Exploration Period was extended for three years to December 29, 2012. As at December 31, 2010, Aral had expended USD 8.5 million toward discharging these obligations.

Addendum No. 6 to the Exploration Contract was granted State Registration on July 13, 2011. The Competent Body of the ROK agreed to amend the Work Program for the years 2010 – 2012 by carrying forward the drilling of two exploration wells (estimated cost USD 13.95 million) and seismic operations (estimated cost USD 2.04 million) from 2010 to 2011 and 2012, with no decrease in expenditures commitment in the extension period. The approved amended Work Program stipulates expenditures of USD 2.10 million, 25.84 million and 22.46 million for the years 2010, 2011 and 2012, respectively. Aral expended USD 6.42 million during 2010.

The various requirements of the work program agreed to with the Ministry of Oil and Gas for 2011, both in terms of functions and expenses, have been carried out by Aral. During 2011, Aral's total expenditures for the year exceeded the commitment, reaching a total of $34.3 million. As at September 30, 2012, Aral had incurred USD 33.2 million of qualifying expenditures.

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

In accordance with Kazakhstani tax legislation Aral is required to pay royalties in relation to the volume of oil produced. However, management of Aral believes that in accordance with the Exploration Contract the test production phase is not subject to royalties and that Aral will be liable to pay royalties only at the experimental-industrial phase or when the Production Contract is signed. Management of Aral has based this belief upon its communications to date with Kazakhstani authorities, in connection with which, no indications have been made that such royalties are payable. Should tax authorities consider Aral's position as incorrect, additional taxes and fines may be imposed. Accordingly, at September 30, 2012, no provision for royalties has been recorded by Aral. The previously mentioned additional fines and taxes that could be levied aggregate $1.2 million.

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 fund the exploration program and support pilot production in the North Block. The operational strategy of the Company 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 Zhagabulak area in the North Block, where the pilot production exists, then move to the Sakramabas area and subsequently, 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. ***See "Forward-Looking Statements and Other Information".***

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.

Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of Management. As a result, transactions may be challenged by tax authorities and the Company may be charged additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for three to five years; however, under certain circumstances a tax year may remain open longer. ***See "Forward-Looking Statements and Other Information".***

East Zhagabulak (EZ)

The Zhagabulak Area is located in the southeastern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 642 million barrels of oil in place with 193 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.

The initial 3-D seismic program covering 406 square kilometres has been completed, processed and interpreted, indicating significant structures. Processing through Pre-Stack Time Migration (PSTM) of the Zhagabulak 3-D seismic data set was completed at the

end of August 2005. The processing was performed by PGD-Dank (a division of Paradigm Geophysical) in Almaty, ROK. Following processing, the data set was transferred to Halliburton's Landmark Geophysical office in Moscow, Russia for interpretation. Processing through Pre-Stack Depth Migration (PSDM) was completed in December 2005 and transferred to Landmark for interpretation. The presence of a broad, extensive structure separating Zhagabulak from neighboring producing fields has been noted and several potential drilling locations have been identified.

The original producing well, EZ#213, drilled and completed during the Soviet period, was re-entered in November 2006 and perforations were added in the KT-1 reservoir. Due to different casing weights, problems were encountered with packer setting for the acid operation and consequently, only one-half of the productive zones were acidized. Despite the limits on the acidization, a significant improvement of daily production over the pre-workover rates was achieved. On August 31, during a 24 hour test, before field shut-in: 210 Bo, 45 Bw, 286 Mcfd, FTP 250, SICP 1,588, flow line pressure 88 psig at an 8.7 mm choke. On November 3, 2008 a 24 hour test was conducted with the following results: 196 Bo (barrels of oil), 101 Bw (barrels of water), 274 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 250, SICP(shut-in casing pressure) 1,720, flow line pressure 110 psig at an 8.7 mm choke. Well 213 flowed for 22 days after the field was brought back on-line, but ceased flowing on November 14, 2008 due to a high water-cut. Beginning in April 2009, EZ#213 was flowing intermittently averaging 10 Bopd, 3 Bwpd and 13 Mcfd. During December 2009, an electric submersible pump was installed in Well 213 and production resumed. The electrical submersible pump installed in Well 213, during December 2009, failed due to an unknown downhole electrical problem.

The workover on producing well EZ #213 in the East Zhagabulak field was completed. The workover installed a new deep well pump, to increase the daily production rate. EZ #213 is currently shut-in. Due to an electrical failure, the downhole pump in EZ #213 ceased working on June 6, 2012. Subsequently, while pulling the pump for remedial action, the cable broke resulting in fish in the hole. On September 2, 2012, during the fishing operation, the fish (39 pieces of tubing, 354 metres of cable and the electronic submersible pump) were "lost" and dropped to 4,211 metres. Fishing operations have resumed.

The location for the first well on the block, EZ#301, 1.1 km southwest of well EZ#213, was chosen from an earlier fast-track interpretation of the 3-D seismic data set. A contract with Nabors Drilling International was concluded in April 2005 and the well spud on July 16, 2005. The well reached a total depth of 4,846 metres on November 7, 2005, logs were run, production casing was set and testing began in mid-December. Acid treatment of the perforated intervals occurred during February 2006. Well 301 was undergoing a government mandated pressure survey in November 2006, when a production logging tool and cable were lost in the hole. During the second quarter 2007, the tool and wire were recovered and the well resumed production. On August 31, during a 24 hour test, before field shut-in, production was 545 Bo, 14 Bw, 743 Mcfd, FTP 309, SICP 1,793, at a flow line pressure of 118 psig on a 12.0 mm choke. On November 3, 2008 a 24 hour test

was conducted with the following results: 560 Bo (barrels of oil), 17 Bw (barrels of water), 779 Mcfd (thousand cubic feet of gas per day), FTP (flowing tubing pressure) 338 psig, SICP(shut-in casing pressure) 1,911, flow line pressure 121 psig at a 12.0 mm choke. During March 2009 EZ#301 was flowing 284 Bopd, 7 Bwpd and 382 Mcfd with a flowing tubing pressure of 338 psig on a 12 mm choke. The flow rate had decreased since the November test due to a suspected asphaltene build-up in the flowline which increased the back-pressure in the flowline from 176 psig, in early February 2009, to 322 psig in March. Remedial actions were undertaken and the flowline was purged with xylene in early April, reducing the back-pressure and restoring the well to 521 Bopd, 13 Bwpd and 640 Mcfd with a flowing tubing pressure of 300 psig on a 12 mm choke. EZ# 301 was shut-in on December 31, 2009, when the pilot production permit expired. During the fourth quarter of 2010, Well 301 averaged 321 Bopd, 16 Bwpd and 459 Mcfpd with a flowing tubing pressure of 259 psig on a 10 mm choke. The addition of a downhole pump in this well will significantly increase the production rate and the installation of a pump is planned for the near future. The pump is estimated to cost USD 300k.

Currently, well EZ #301 is shut-in.

A second well location, EZ#302, was drilled approximately 3.6 km southwest of EZ#301 and is structurally updip to that well. EZ#302 spud on December 25, 2005. Acidizing and testing of the well were performed following removal of the drilling rig. The well showed all indications of hydrocarbons while drilling and logging; however, the stimulation efforts failed to cause the well to flow naturally. In well 302 a workover has been prepared to isolate the KT-II and the lower portions of the KT-I that exhibit higher water saturations on the logs.

The third drilling location, EZ#303, located 5.2 km southwest of EZ#302, was permitted to a depth of 5,700 metres and was spud on May 28, 2006. EZ#303 reached a total depth of 4,630 metres in a sidetrack wellbore after the initial wellbore reached a depth of 5,430 metres, but was lost due to a drill string parting, while pulling out of the hole for logging. A total of 70 meters were perforated and acidized in both the KT-1 and KT-2 intervals. A combined test of both intervals yielded water with small amounts of oil, while the separate test on the KT-1 yielded water. In Well 303 a workover is proposed to isolate and test intervals separately to identify which perforations are producing water.

Aral Petroleum Capital LLP (Aral or APC), the operating entity in Kazakhstan, holds a 25-year production licence for East Zhagabulak and a three-year exploration permit for the larger North Block, an area of some 1,549 square kilometres in West-Central Kazakhstan that contains both East and West Zhagabulak.

On February 16, 2012, the Associated Petroleum Gas Utilization Program of Aral was reviewed and approved by the Ministry of Oil and Gas. Subsequently, the MOG granted to Aral a permit to flare associated gas until December 29, 2012.

Well EZ #308 spud on July 16, 2011. Production casing was set to 4,775 metres. Electronic logging operations have identified substantial intervals of possible pay in the KT-I zone and an additional 88 metres of net pay in the KT-II.

On March 26, 2012, the KT-II zone was perforated from 4,500 - 4,668 metres. Four horizons, consisting of 15 pay stringers, were perforated. Total thickness of the stringers is about 80 metres.

The well was acidized in an attempt to stimulate production. A downhole pump was installed to lift fluid from the well bore. Currently, the daily oil production rate is 55 barrels with a water cut equal to 86%. Planning and remedial action are underway to "pinch-off" the formation water and increase the oil cut.

Well 306 spud on January 9, 2012. It is intended to delineate the southern extent of the discovery and further confirm the considerable value of the East Zhagabulak field. The geological conditions for Well 306 are the same as for the recently drilled Well 308, targeting the same hydrocarbon bearing horizons; KT-I at a depth of 3,360 to 3,879 metres and KT-II at 4,070 to 4,700 metres.

Well 306 reached target depth during July 2012. Log results confirmed the presence of pay zones in both the KT-I and KT-II. Four prospective intervals were selected for testing with a total thickness of 145 metres. Two KT-II intervals were identified (4,605.9 - 4,661 metres and 4,557.4 - 4,585.9 metres). Additionally, an inter-carbonate, sedimentary stratum, in the interval 4,223.9 - 4,235 metres together with the KT-I horizon at the interval 3,563 - 3,667 metres will be tested. Production casing was set in the well to a depth of 4,780 metres.

The RK MOG (Republic of Kazakhstan, Minister of Oil and Gas), has granted a gas flaring permit valid until September 29, 2013.

Sakramabas #316 spud on July 22, 2011. This well encountered net pay zones aggregating 184.8 metres and equates to a new discovery well in the West Zhagabulak field of Kazakhstan.

Following successful logging, Well 316 has been cased to a depth of 4,950 metres.

While testing the interval 4,346 - 4,352 metres, the well flowed at an estimated rate of 78 Bopd. Based on the results of testing, a submission was made to the RK MOG requesting the recognition of the discovery of a new oil pool. The RK MOG Expert Commission confirmed the discovery and requested Aral to prepare the necessary documents to extend the Exploration Contract in the North Block for an additional two years (2013 and 2014).

Testing is ongoing and Aral is engaged in preparing the necessary design-project documents for extension of the Contract.

The rig which drilled Well 316 to total depth in the West Zhagabulak field, was immediately mobilized to East Zhagabulak, where it set surface casing on Well 315 on

May 9, 2012. If successful, Well 315 will result in the material conversion of P3 (possible) reserves to P2 (probable) reserves.

Well 315 has reached total depth of 4,743 metres and is awaiting testing.

Renewed confidence in world oil prices have increased outside interests in the North Block and East Zhagabulak field farm-out and funding efforts.

Baktygaryn

The Baktygaryn Area is located in the northwestern corner of the North Block. The Government of Kazakhstan has estimated that this Area contains 863 million barrels of oil in place with 259 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.

In September 2005, Azimut Energy Services began seismic acquisition work in the Baktygaryn Area. The acquisition program of 235 square kilometres of 3-D seismic data was completed during November 2005 and the data transferred to PGS-GIS in Almaty for processing.

The data was fully processed through Pre-Stack Time Migration for the above salt section and through Pre-Stack Depth Migration for the below salt section and full interpretation of this data was completed by the end of October 2006. The acquisition of the regional 2-D seismic survey covering the west and north areas of the North Block and tying into the Zhagabulak and Baktygaryn 3-D seismic surveys that was completed in March 2006 has been processed and interpreted. The interpreted data from all new seismic data acquired and from the earlier reprocessed Soviet-era 2-D seismic has been combined to create a geological model and identify additional leads and prospects across the North Block territory.

The Baktygaryn Area presents drilling targets in both the below salt Lower Permian and Carboniferous sections and the above salt Upper Permian and Mesozoic sections with depths ranging from approximately 400 to 2,500 metres and provides a second tier of exploration to the Company's drilling portfolio. These targets are recognized in the forms of channel sands, traps against the Kungurian salt ridges and underneath salt overhangs.

In addition to the ongoing interpretation work on the Baktygaryn 3-D and North Block regional 2-D seismic data and the identification of several post-salt drilling targets in the Triassic and Permian formations, further progress on the interpretation has revealed the presence of additional targets which are being added to the Company's prospect and lead portfolio.

The first post-salt well identified from the Baktygaryn 3-D survey, Baktygaryn #703, was spud on March 17, 2008, reached total depth of 2,521 metres on June 15, 2008 and was

rig-released on June 19, 2008. Numerous drilling delays were experienced due to deviation problems in the salt and anhydrite section and mechanical failures of the drill string. The object of the vertical well was to secondarily, test Triassic sandstones downdip on a faulted structure and primarily, Upper Permian sandstones in a trap below a Permian salt diaper overhang. The well encountered excellent reservoir quality sandstones in the Triassic, but due to the downdip location of the well, no hydrocarbons were found. Seismic anomalies that supported the presence of a hydrocarbon trap in the Upper Permian, below a salt overhang, were proven by drilling to be inter-bedded claystones and anhydrite. No reservoirs in the Upper Permian were encountered and the well was plugged and abandoned.

The rig moved to the Aransay #711 location, approximately 20 kilometres east, where it spud on July 11, 2008 and was rig released, plugged and abandoned, on July 26, 2008. On reaching its total depth of 924 metres in the Upper Permian, the well encountered approximately 298 metres of reservoir quality rocks in the Triassic section. The Triassic was interpreted to be sandstone reservoirs trapped against a fault and was supported by a series of flat-based seismic reflectors believed to indicate a potential hydrocarbon/water interface. However, no shows were encountered while drilling and electric logging has confirmed the absence of hydrocarbons. Drilling and petrophysical analysis of electric logs indicated all zones were water saturated. Nevertheless, the presence of reservoir-quality sands of such thickness in the Triassic supports the interpretation that the Triassic is a viable primary target in the area in the presence of a proper trap and seal.

Itisay, Kozdesay and West Kozdesay

These three Areas are located in the southwestern portion of the North Block and collectively, are viewed as one prospect. The Government of Kazakhstan has estimated that these Areas contain 567 million barrels oil in place and 170 million barrels 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.

Soviet-era seismic data interpretation, mapping and the associated shallow well drilling in these Areas yielded minor positive tests and shows of oil associated with the post-salt sediments of Jurassic, Triassic and Upper Permian ages. A review of this data has resulted in the identification of several prospects and leads ranging from 600 to 1,800 metres in trapping positions against Permian salt ridges and under-salt overhangs. Several lines from the Company's 2006 2-D seismic program were shot across certain of these leads and prospects to verify this premise. Interpretation of most of the regional 2006 2-D seismic survey covering the west and north areas of the North Block has been completed. The interpreted data from all new seismic data acquired and from the earlier reprocessed Soviet-era 2-D seismic was combined to create a geological model and identify additional leads and prospects across the North Block territory. As a result of this work, some of the earlier leads and prospects in the post-salt sediments identified on vintage maps and seismic in three areas in the south western portion of the North Block, known as Itisay, Kozdesay and West Kozdesay have been confirmed and in addition several new leads and

drillable prospects have been identified in trapping positions against Permian salt ridges and under salt overhangs.

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: Tashir – 126 million barrels oil in place and 38 million barrels recoverable, Bulash – 116 million and 35 million, respectively, and Shegelshy – 90 million and 31 million, respectively. The grand totals estimated by the Kazakh Government for all prospects in the North Block are 899 million barrels oil in place and 274 million barrels oil recoverable.

Beginning in the fourth quarter of calendar 2004, the Company undertook to reprocess and interpret approximately 3,000 kilometres of Soviet age 2-D seismic data in other areas of the original concession. From this effort the Company identified the Baktygaryn Area for acquiring additional 3-D seismic.

During March 2005, Aral was awarded the exploration rights over an additional 1,110 square kilometre area adjacent to the north and west portions of the North Block. This new territory contains additional seismic and well data and efforts to identify that data for incorporation into the electronic database have begun. Evaluation of the North Block extension, the preliminary identification of potential drilling areas and plans on how to explore are in process.

Digitization and calibration of the existing Soviet age well log data across the entire North Block territory for those wells penetrating into the formations below the Permian salt complex have been completed and petrophysical analysis of these wells commenced during December 2005 and continues to present.

A full North Block prospect evaluation project utilizing all recent and vintage seismic and well log data was completed. Numerous older prospects within the block were confirmed and several new prospects were identified.

A request for an extension of three years (through year 2012) of the exploration period for the North Block contract was approved by the Ministry of Energy and Mineral Resources with additional work program commitments.

On November 25, 2009, during a Zapkaznedra ITD Technical Council (the regulatory body) session, the Exploration Period was extended for three years to December 29, 2012 with a cumulative expenditures obligation of USD 56.5 million. Protocol No. 188/2010 (issued February 5, 2010), by Zapkaznedra ITD Technical Council, stipulated that 55% of the contractual territory will be and was returned to the ROK in the 4th quarter of 2010. The prospective areas - Greater Zhagabulak, Baktygaryn, Uriktau, and West Kozdesay, and others, were retained. No hydrocarbon, highly prospective area, as determined by the Company, was released.

Summary of Selected Quarterly Results ($000's - except sales volumes/prices and per share amounts)

Period	*4Q-10*	*1Q-11*	*2Q-11*	*3Q-11*	*4Q-11*	*1Q-12*	*2Q-12*	*3Q-12*
Oil and gas –Boe/d	168	44	3	167	290	69	129	133
Oil and gas sales price – per Boe	72.07	77.23	20.30	93.11	94.82	87.84	85.51	92.16
Oil and gas revenues,net	3,819	304	5	1,428	1,869	550	1,000	1,131
Cash flow from operating activities	1,145	(751)	(298)	7,317	(14,569)	(843)	(2,616)	2,617
Net income (loss)	372	(1,246)	(2,337)	5,066	(36,626)	(1,748)	(3,612)	(1,640)
Netincome (loss) per share basic and diluted	0.00	(0.01)	(0.00)	0.03	(0.20)	(0.01)	(0.01)	(0.01)

The East Zhagabulak field was shut-in concurrent with the expiration of the gas flaring permit on December 31, 2010 and production recommenced on June 15, 2011.

Subsequently, the workover on producing well EZ #213 in the East Zhagabulak field was completed. The workover installed a new deep well pump, to increase the daily production rate. On December 31, 2011 well EZ #213 and EZ#301 were shut-in.

Currently, well EZ #301 is producing an average 300 barrels of oil per day by natural pressure, after being permitted by regulators to return to production May 3, 2012 on the premise that both East Zhagabulak wells will begin capturing solution gas by year-end. EZ #213 is currently shut-in. Due to an electrical failure, the downhole pump in EZ #213 ceased working on June 6, 2012. Subsequently, while pulling the pump for remedial action, the cable broke resulting in fish in the hole. Fishing operations are ongoing. Currently, at EZ #308, the daily oil production rate is 55 barrels

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

Net income (loss), over the eight quarters, also varies due to the stock-based compensation charge, which is tied to the date of stock option grants, which generally vest on the date of grant.

Pursuant to the pronouncements of IFRS, Caspian's convertible debentures constitute a financial liability with an embedded derivative (which is the conversion feature of this instrument). Revaluation of the derivative component of the Company's Convertible Debentures from the date of the Second Amending Agreement to quarter end (4Q 2011) resulted in an unrealized gain equal to $5,754,000 as the fair value of the conversion option has decreased due to the deteriorating market value per share of the Company's common shares. During 3Q 2012, a similar in nature gain of $971,000was recorded.

The deal with Asia Sixth was signed November 1, 2010 and closed on December 29, 2011. Caspian Energy Inc. now owns 40 % of Aral Petroleum Capital LLP (Aral), the operating entity in Kazakhstan. Caspian, originally a 50 % owner in Aral, conveyed 10% ownership to Asia Sixth. The accounting loss suffered on this disposition was recognized in 4Q 2011 and equates to $33,687,000. The loss is mostly comprised of the surrender to Asia Sixth, by Caspian, of 60% of its loan to Aral.

During 3Q 2012, due to the fluctuation in the Canadian dollar versus the United States dollar and the Kazakh Tenge, mostly unrealized foreign exchange losses of $611,000 were recorded.

See "Forward-Looking Statements and Other Information".

CONTRACTUAL OBLIGATIONS

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

The minimum work program was USD 20.8 million and matured at the end of calendar 2005. As at December 31, 2005, this financial obligation was fully discharged. The work program was extended to December, 2007 and included drilling three wells to a combined total of 8,500 metres. The work program was extended to December 2009 and contains a 2009 exploration commitment which aggregates USD10.5 million. As at December 31, 2007, Aral had incurred USD 119.7 million in charges related to the work commitments of the minimum working program agreed with the ROK competent bodies. At this point, shortfalls pursuant to the work commitments aggregated USD7.1 million. Management of Aral believed the Company was in compliance with its commitments under the minimum working program and received authorization from the Ministry of Energy and Natural Resources and other competent bodies to carry over fulfillment of the above shortfalls to the year ending December 31, 2008. At December 31, 2008, Aral had discharged these obligations having incurred USD138.5 million in charges related to the work commitments of the Minimum Working Program. During the first quarter of 2009, Aral's request for a three year extension (through December 2012) to the exploration period for the North Block contract was approved by all the required ROK regulatory bodies. Concurrent with the extension, the proposed 2009 minimum

work commitment was increased from USD10.5 million to USD38.9 million. On November 25, 2009, during a Zapkaznedra ITD Technical Council (the regulatory body) session, the Council decreed that the Aral Petroleum Capital LLP Updated Work Program has financial obligations of USD 21.4 million. Aral has a 2009 deficiency in qualifying expenditures equal to USD 11.0 million, which the Council has agreed to defer to future periods. Also, the Exploration Period was extended for three years to December 29, 2012.

Addendum No. 6 to the Exploration Contract was granted State Registration on July 13, 2011. The Competent Body of the ROK agreed to amend the Work Program for the years 2010 – 2012 by carrying forward the drilling of two exploration wells (estimated cost USD 13.95 million) and seismic operations (estimated cost USD 2.04 million) from 2010 to 2011 and 2012, with no decrease in expenditures commitment in the extension period.

Addendum No.7 was granted State Registration during January 2013. The granting of this extension reflects the fact that a new discovery was declared in West Zhagabulak, with the completion of well 316 in mid-2012. This extension allows time for the Company to evaluate this new discovery and to commence exploration activity in other parts of the North block outside of the Zhagabulak area.

Under the Exploration Agreement with the ROK, the approved work program calls for expenditures of USD25.8 million in 2011 and USD22.5 million in 2012. The various requirements of the work program agreed to with the Ministry of Oil and Gas for 2011, both in terms of functions and expenses, have been carried out by Aral. During 2011, Aral's total expenditures for the year exceeded the commitment, reaching a total of USD 34.3 million. As at September 30, 2012, Aral had incurred USD 33.2 million of qualifying expenditures.

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

Set forth below is a summary reconciliation of the minimum work program requirements of Aral under the Exploration Contract as at September 30, 2012:

Fiscal Year	**Minimum Work Program (US $000's)**	**Amount Paid to Date (US $000's)**	**Shortfall (Overpayment) (US $000's)**
2003	5,642.4	550.6	5,091.8

2004	9,707.9	14,333.3	(4,625.4)
2005	20,914.4	23,961.7	(3,047.3)
2006	58,371.2	54,034.6	4,336.6
2007	32,159.1	26,867.9	5,291.2
2008	9,049.4	18,751.9	(9,702.5)
2009	21,400.0	10,362.0	11,038.0
2010	2,097.0	8,512.1	(6,415.1)
2011	25,840.0	34,310.0	(8,470.0)
2012	22,463.0	33,211.1	(10,748.1)

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES AND NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD

Cash Provided by (Used in) Operating Activities

Caspian's operations used $842,000 of cash for the nine months ended September 30, 2012 and provided $6,268,000 of cash for the nine months ended September 30, 2011.

Cash Provided by (Used in) Operating Activities

(000's except per share)	**9 months 2012**	**9 months 2011**
Cash provided by (used in) operating activities	$(842)	$6,268
Basic	$(0.00)	$0.03
Diluted	$(0.00)	$0.03

Comprehensive Income (Loss)

For 3Q 2012, comprehensive income (loss) was $(2,251,000) (3Q 2011 – $3,243,000). Finance expense of $421,000 (3Q 11 – recovery $1,476,000) and foreign exchange translation charges of $611,000 (3Q 11 – 1,823,000) contribute to this amount.

Pursuant to the pronouncements of IFRS, Caspian's convertible debentures constitute a financial liability with an embedded derivative (which is the conversion feature of this

instrument). Revaluation of the derivative component of the Company's Convertible Debentures from the beginning of the third quarter to quarter end has resulted in an unrealized gain equal to $971,000 as the fair value of the conversion option has decreased due to the deteriorating market value per share of the Company's common shares.

For the nine months ended 2012, comprehensive income (loss) was $(6,321,000) (nine months ended 2011 – $637,000.

(000's except per share)	**3Q 2012**	**3Q 2011**
Comprehensive income (loss):	$(2,251)	$3,243
Basic	$(0.01)	$0.02
Diluted	$(0.01)	$0.02

(000's except per share)	**9 months 2012**	**9months 2011**
Comprehensive income (loss):	$(6,321)	$637
Basic	$(0.03)	$0.00
Diluted	$(0.03)	$0.00

Sales Volumes

Presently, our oil is shipped by rail to Kaliningrad, due to its inability to meet pipeline specifications, a consequence of the lack of facilities that can desalt our feedstock and remove the mercaptans. The Company sold an average 133 Bopd (3Q 11 – 167 Bopd) at a price of $92.16 (3Q 11 - $93.11), per barrel, net of ROK takes, during the quarter ended September 30, 2012. Under the Exploration Contract, Aral is required to pay royalties at a rate of 3% of the volume of hydrocarbons produced and sold based upon the average selling price (less transportation expenses) of the production. Aral is also obligated to allocate 10% of produced hydrocarbons to the ROK. Aral believes that in accordance with the Exploration Contract, the test production phase is excluded from the burden of royalties and that royalties are payable only at the experimental-industrial phase or when a Production Contract is concluded. If Aral's perspective is incorrect and rejected by

Kazakh tax authorities, additional taxes and fines approximating $1.2 million may be levied.

Revenues

For 3Q 2012, revenues before transportation costs were $1,131,000. For 3Q 2011, revenues before transportation costs were $1,428,000. During 2012, the average sales rate decreased from 167 Bopd in 2011 to 133 Bopd, and the average price per barrel decreased from $93.11 to $92.16.

Operating Expenses

For 3Q 2012, operating costs were $659,000 (3Q 11 - $965,000) and transportation costs were $459,000 (3Q 11 - $(548,000)) Operating costs aggregated $53.70 (3Q 11 - $62.92 per barrel.

Operating Netbacks

Operating netback for the quarter ended September 30, 2012 was $13,000.

(000's except per boe)	**Total ($)**	**Per Boe ($)**
Sales, net	1,131	92.16
Operating costs	659	53.70
Transportation	459	37.40
Netback	13	1.06

Operating netback for the quarter ended September 30, 2011 was $(85,000).

(000's except per boe)	**Total ($)**	**Per Boe ($)**
Sales, net	1,428	93.11
Operating costs	965	62.92
Transportation	548	35.73
Netback	(85)	(5.54)

General and Administrative Expenses (000's)

	3Q 2012	**3Q 2011**

Office expenses	$28	$29
Travel and entertainment	56	61
Salaries/benefits	178	188
Audit	(32)	-
Legal	125	73
Third parties	1,434	169
Social tax	5	7
Insurance	-	-
Other	214	10
Total expense	**$2,008**	**$537**

Significant travel expenses are incurred as the operations of the Company are centered in the ROK, a Calgary, Alberta office is maintained for financial reporting and investor relations, the CEO is resident in Portugal, and financing activities span North America, the British Isles, Asia and Europe. Salaries and benefits relate to the remuneration packages of the Chief Executive Officer, the Chief Financial Officer and a pick-up from Aral.

During this fiscal quarter, upon finalization of a legal settlement, $1,270,000 has been included in "Third parties" charges.

CAPITAL EXPENDITURES

Capital expenditures of $11,334,000 for the nine months ended 3Q 2012 (3Q 11 - $7,167,000) were incurred.

DEPLETION, DEPRECIATION AND ACCRETION

Depletion, depreciation and accretion expense was $195,000 ($15.94 per Boe) for the quarter ended September 30, 2012 and $548,000 ($40.03 per Boe) for the quarter ended September 30, 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company operates within several parameters affecting its liquidity and capital resources:

- Its business is capital intensive, requiring cash infusions on a regular basis as it seeks to grow its business.

- Its inventory of product for sale – its reserves – needs to be constantly replenished and augmented.
- It is a price taker when selling its inventory of oil and natural gas reserves.

Given these constraints, Caspian finances its operations through equity sources and cash flows.

The Company reported a net loss of $5,077,000 and negative funds generated from operating activities of $842,000 for the period ended September 30, 2012. The Company had a net working capital deficiency of $67,077,000 and a cumulative deficit equal to $183,318,000 at period end.

On April 7, 2011, the Company concluded an arrangement with its Debentures holders regarding the USD 16 million, 10% per annum, convertible debentures which matured on March 2, 2011. The existing Debentures were restructured as follows:

- 44% of the principal plus accrued interest was converted into common shares of the Company at a price of $0.19 per common share (this aggregates $9,790,753 convertible to 49,777,218 common shares)
- the existing Debentures were amended to an amount of $12,460,958, with a conversion price of $0.28 per common share, a floor price (minimum conversion price) of $0.10 per common share and a 24 month maturity date
- Interest remains at 10% per annum, payable in cash quarterly, or at the election of the holders in stock at a 5% discount to 20 day Volume Weighted Average Price (VWAP) plus ½ share purchase warrant (2 year life) at a 30% premium

  to VWAP

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

On February 23, 2010, the Company announced that it had entered into an agreement to sell a 10% interest in Aral Petroleum Capital LLP to AsiaStar Petroleum Limited. Caspian then held an aggregate 50% interest in Aral, which it operates as a joint venture together with Azden Management Limited. The sale of 10% of Aral equates to a disposition of 20% of Caspian's total interest in Aral.

The deal with Asia Sixth was signed November 1, 2010 and closed on December 29, 2011, with satisfaction of the last of several conditions precedent. Caspian Energy Inc. now owns 40 % of Aral Petroleum Capital LLP (Aral), the operating entity in Kazakhstan, while Asia Sixth Energy Resources Limited owns 60 % of Aral.

Caspian, originally a 50% owner in Aral, conveyed 10% ownership to Asia Sixth in return for Asia Sixth's undertaking to finance capital expenditures to the cumulative threshold of USD $80 million over the duration of the deal. Caspian also receives a $2 million loan, secured by production-oriented cash flow, plus access to a further two million on each of the first two anniversaries of the transaction. This arrangement permits Caspian to access a total of $6 million over two years, if the company so decides. Loans have a maturity of ten years and bear interest at 10 % per year for the first five years and 18 % for the second 5 years. Repayments on this facility are restricted to and sourced from the production proceeds of Aral.

These loans, together with the $80 million capital facility, ensure that Caspian will have sufficient funds for the initial phase of the project in East Zhagabulak. Management expects the program to become self-funding before the loan facility is fully expended.

Asia Sixth is a special purpose vehicle, representing oil-and-gas-experienced private interests in the Asia Pacific region, 40% indirectly owned by Strong Petrochemical Holdings Ltd, listed on the HKSX and the residual by a Chinese entrepreneur. This company has the technical and administrative capacity to direct the exploration, development and production activities of APC within the North Block.

As part of the transaction, it will be the purchaser's responsibility to make a significant effort to secure USD 80 million in debt financing for Aral for further exploration and development. This transaction will achieve several strategic milestones. It will provide the funding necessary to develop the East Zhagabulak field, phase one of which envisages the immediate drilling of development wells. It will provide the funding required for a sustained exploratory drilling campaign in the Greater Zhagabulak, Baktygaryn, and Urikhtau areas, among others. Finally, it should ensure that Caspian will not have to provide additional funds for the activity in the North Block in the near term.

Nevertheless, despite the assurances described above, the Company's existing sources of financing, including income from the operations of Aral, are not sufficient to meet the Company's formal obligation to repay the Convertible Debentures on June 2, 2013, if such repayment is ultimately demanded by the Debenture holders. A demand for repayment on June 2, 2013 could result in the Company's inability to continue as a going concern. In addition, the Company does not have the financial ability to enable Aral to repay its outstanding loans in the event that Asia Sixth fails to uphold its $80 million undertaking, with the result that Aral may not be able to continue operations. Given that the Company's 40% ownership of Aral represents the Company's most significant asset, the failure of Aral to continue operations would have a significant impact upon the Company.

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 licence 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 shareholders 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.

Management of the Company does not currently believe that the likelihood of a default on its indebtedness is significant.

See also "Contractual Obligations".

On January 5, 2010, the Company issued 6,553,311 common shares and 655,322 share purchase warrants, at an exercise price of $0.082191, pursuant to the Convertible Debentures interest obligation pertinent to 4Q 2009.

On April 15, 2010, the Company issued 2,271,117 common shares and 227,116 share purchase warrants at an exercise price of $0.2183106 pursuant to the 1Q 2010 interest obligation.

On May 27, 2010, the Company closed its non-brokered private placement pursuant to which it issued 9,320,000 common shares at a price of $0.20 per share to raise gross proceeds of $1,864,000. The common shares issued in connection with the private placement were subject to a statutory hold period which expired on September 28, 2010.

On July 14, 2010, the Company issued 3,069,293 common shares and 306,929 share purchase warrants at an exercise price of $0.1758922 pursuant to the 2Q 2010 interest obligation on its Convertible Debentures.

On May 31, 2011, the Company issued 561 common shares upon the exercise of share purchase warrants at an exercise price of $0.45.

On July 8, 2011, the Company issued 1,438,087 common shares and 719,044 share purchase warrants at an exercise price of $0.288668 pursuant to the 2Q 2011 interest obligation on its Convertible Debentures.

On October 31, 2011 3,034,470 common shares and 1,517,235 share purchase warrants were issued to satisfy the 3Q 2011 interest obligation on the Company's Convertible Debentures. The deemed price of the stock issued is $0.106879 per share and the warrant exercise price is $0.146256.

On December 22, 2011, 2,406,226 warrants were exercised for proceeds of $141,078.

On January 5, 2012, 567,999 warrants were exercised for proceeds of $46,684.

On April 16, 2012, 1,672,012 common shares and 836,007 share purchase warrants were issued to satisfy the 4Q 2011 interest obligation on the Company's Convertible Debentures. The deemed price of the stock issued is $0.139625 per share and the warrant exercise price is $0.191065.

On July 9, 2012, 636,364 common shares and 318,182 share purchase warrants were issued to satisfy the 2Q 2012 interest obligation on the Company's Convertible Debentures. The deemed price of the stock issued is $0.13443 per share and the warrant exercise price is $0.183957.

On October 2, 2012, 787,212 common shares and 393,606 share purchase warrants were issued to satisfy the 3Q 2012 interest obligation on the Company's Convertible Debentures. The deemed price of the stock issued is $0.102798 per share and the warrant exercise price is $0.140672.

On January 9, 2013 1,286,684 common shares and 643,342 share purchase warrants were issued to satisfy the 4Q 2012 interest obligation on the Company's Convertible Debentures. The deemed price of the stock issued is $0.063769 per share and the warrant exercise price is $0.087263.

See "Forward-Looking Statements and Other Information".

OUTSTANDING SHARE DATA

At February 4, 2013 the number of common shares of the Company outstanding and the number of common shares issuable pursuant to other securities of the Company outstanding are as follows:

Common Shares	Number
Outstanding	228,243,351
Issuable under options	21,791,621
Issuable pursuant to debentures warrants (max)	11,939,025
Issuable pursuant to convertible debentures outstanding (max)	146,764,228

BUSINESS PROSPECTS AND OUTLOOK

The Company has been successful in establishing itself as an operating entity in the ROK and expects to continue with future growth through continued work there as further set forth below.

On February 16, 2012, the Associated Petroleum Gas Utilization Program of Aral was reviewed and approved by the Ministry of Oil and Gas. Subsequently, the MOG granted to Aral a permit to flare associated gas until December 29, 2012.
Completion of construction and commissioning of the gas pipeline to transfer gas to the Alibekmola Gas Processing Plant is expected to occur during December 2012. Concurrently, the pilot production stage will end and the development stage will begin in East Zhagabulak.

Currently, well EZ #301 is shut-in.

EZ #213 is currently shut-in. Due to an electrical failure, the downhole pump in EZ #213 ceased working on June 6, 2012. Subsequently, while pulling the pump for remedial action, the cable broke resulting in fish in the hole. On September 2, 2012, during the fishing operation, the fish (39 pieces of tubing, 354 metres of cable and the electronic submersible pump) were "lost" and dropped to 4,211 metres. Fishing operations have resumed.

Well EZ #308 spud on July 16, 2011. Production casing was set to 4,775 metres. Electronic logging operations have identified substantial intervals of possible pay in the KT-I zone and an additional 88 metres of net pay in the KT-II.

On March 26, 2012, the KT-II zone was perforated from 4,500 - 4,668 metres. Four horizons, consisting of 15 pay stringers, were perforated. Total thickness of the stringers is about 80 metres.

The well was acidized in an attempt to stimulate production. A downhole pump was installed to lift fluid from the well bore. Currently, the daily oil production rate is 55 barrels with a water cut equal to 86%. Planning and remedial action are underway to "pinch-off" the formation water and increase the oil cut.

Well 306 spud on January 9, 2012. It is intended to delineate the southern extent of the discovery and further confirm the considerable value of the East Zhagabulak field. The geological conditions for Well 306 are the same as for the recently drilled Well 308, targeting the same hydrocarbon bearing horizons; KT-I at a depth of 3,360 to 3,879 metres and KT-II at 4,070 to 4,700 metres.

Well 306 reached target depth during July 2012. Log results confirmed the presence of pay zones in both the KT-I and KT-II. Four prospective intervals were selected for testing with a total thickness of 145 metres. Two KT-II intervals were identified (4,605.9 - 4,661 metres and 4,557.4 - 4,585.9 metres). Additionally, an inter-carbonate, sedimentary

stratum, in the interval 4,223.9 - 4,235 metres together with the KT-I horizon at the interval 3,563 - 3,667 metres will be tested. Production casing was set in the well to a depth of 4,780 metres.

The RK MOG (Republic of Kazakhstan, Minister of Oil and Gas), has granted a gas flaring permit valid until September 29, 2013. A further permit relating to the emission of harmful substances is expected by November 2012 month-end.

Sakramabas #316 spud on July 22, 2011. This well encountered net pay zones aggregating 184.8 metres and equates to a new discovery well in the West Zhagabulak field of Kazakhstan.

Following successful logging, Well 316 has been cased to a depth of 4,950 metres.

While testing the interval 4,346 - 4,352 metres, the well flowed at an estimated rate of 78 Bopd. Based on the results of testing, a submission was made to the RK MOG requesting the recognition of the discovery of a new oil pool. The RK MOG Expert Commission confirmed the discovery and requested Aral to prepare the necessary documents to extend the Exploration Contract in the North Block for an additional two years (2013 and 2014).

Testing is ongoing and Aral is engaged in preparing the necessary design-project documents for extension of the Contract.

The rig which drilled Well 316 to total depth in the West Zhagabulak field, was immediately mobilized to East Zhagabulak, where it set surface casing on Well 315 on May 9, 2012. If successful, Well 315 will result in the material conversion of P3 (possible) reserves to P2 (probable) reserves.

Well 315 has reached 4,743 metres (target depth) and is awaiting completion.

At September 30, 2012, the Company had a working capital deficiency of $67,077,000.

Under the Exploration Agreement with the ROK, the approved work program calls for expenditures of USD25.8 million in 2011 and USD22.5 million in 2012. The various requirements of the work program agreed to with the Ministry of Oil and Gas for 2011, both in terms of functions and expenses, have been carried out by Aral. During 2011, Aral's total expenditures for the year exceeded the commitment, reaching a total of USD34.3 million.

The deal with Asia Sixth was signed November 1, 2010 and closed on December 29, 2011, with satisfaction of the last of several conditions precedent. Caspian Energy Inc. now owns 40 % of Aral Petroleum Capital LLP (Aral), the operating entity in Kazakhstan, while Asia Sixth Energy Resources Limited owns 60 % of Aral.

Caspian, originally a 50% owner in Aral, conveyed 10% ownership to Asia Sixth in return for Asia Sixth's undertaking to finance capital expenditures to the cumulative threshold of USD $80 million over the duration of the deal. Caspian also receives a $2

million loan, secured by production-oriented cash flow, plus access to a further two million on each of the first two anniversaries of the transaction. This arrangement permits Caspian to access a total of $6 million over two years, if the company so decides. Loans have a maturity of ten years and bear interest at 10 % per year for the first five years.

These loans, together with the $80 million capital facility, ensure that Caspian will have sufficient funds for the initial phase of the project in East Zhagabulak, though the program should become self-funding before the loan facility is fully expended.

Asia Sixth is a special purpose vehicle, representing oil-and-gas-experienced private interests in the Asia Pacific region, 40% indirectly owned by Strong Petrochemical Holdings Ltd, listed on the HKSX and the residual by a Chinese entrepreneur. This company has the technical and administrative capacity to direct the exploration, development and production activities of APC within the North Block.

On August 21, 2012, the Company announced the appointment of Mr. Roger Nutt as senior consultant to the Company. Mr. Nutt is a petrophysical consultant with 50 years experience in the industry specialising in wireline logging Mr. Nutt has now visited the Company's operations in the Republic of Kazakhstan and spent significant time analysing the data with assistance from Caspian and its partners Aral Petroleum Capital LLP's and Asia Sixth. Mr. Nutt was given access to all the information available on the logs, core data and Spectral Gamma Rays (SGR) from Wells 301, 302, 303, 306, 308 and 316.

It is the belief of Mr. Nutt that the carbonate host rock is fractured, and the evidence shows that it is also almost certainly karstic. Mr. Nutt believes that these fractures and karstic intervals will contain oil and that if the wells are completed in a manner more appropriate to the true nature of the reservoir, subject to the next point they could produce oil at an improved rate.

It is the belief of Mr. Nutt that the data examined has demonstrated that the geology is not a normal, conventional reservoir. Mr. Nutt is of the opinion that the reason for the disappointing flow rates achieved to date is that all the wells drilled so far have been completed on the false premise that the rock is a normal, conventional, permeable formation, in which oil flows to the wells between the rock grains. In fact, it is the view of Mr. Nutt, that the rock is impermeable to the extent that very little oil can be extracted from the drilling techniques adopted to date.

Mr. Nutt believes that to achieve the full potential of these wells, each well must be perforated at the depths which will give access to the relevant fractures or karsts. These depths are currently being established. Each perforated interval must then be mini-fractured and propped open, to allow the oil access from the reservoir to the well-bore perforations, through the cement around the casing.

To effect a better understanding of the strategy inherent in Mr. Nutt's hypothesis or philosophy, certain queries were presented to him. The responses have been incorporated into the brief narrative following, to provide insight and comprehension to the

Company's shareholders as to what effect Mr. Nutt's theories may have on the Company's oil and gas operations.

The production rates in Caspian's Zhagabulak wells have not met initial expectations. This circumstance is not a consequence of current drilling techniques, but rather relates to historical completion methods, which have focused exclusively on perforating intervals which appear to have the greatest matrix porosity and (by inference) improved matrix permeability. The matrix permeability of the vast majority of the Carboniferous carbonate in Zhagabulak is less than 1 mDarcy, usually much less than 1 milliDarcy. Occasional core plugs exhibit matrix permeabilities of several milliDarcies, but these are rare, and generally not interconnected (adjacent). Perforating intervals which appear to have the greatest matrix porosity has occasionally resulted in perforation of (or near) a fracture, which has resulted in significant oil production from the fracture and associated fracture network. A fracture which is too small to be identified during drilling, or from standard open-hole logs, can easily produce several hundred barrels of oil per day initially.

Instead of deliberately avoiding the natural fractures and permeability pathways in the rock – which has historically been the case in Zhagabulak – the new approach is to identify and selectively perforate these intervals, to allow the oil they contain to be recovered.

Permeability is the propensity or ability of the rock to allow fluid migration through it.

Most rocks which constitute reservoirs for hydrocarbon possess two types of permeability.

The rocks themselves are constructed of grains of a hard, impermeable material which are cemented together or *lithified.* Between these grains are holes or *pores* in which the hydrocarbon has collected. The hydrocarbon migrates through the rock between the interconnecting pores: this is known as ***matrix permeability***.

The vast majority of rocks are also cracked. The cracks in the rock are called *fractures.* These fractures may constitute the majority of the rock permeability: they enable the rock to release its hydrocarbon at a rate much greater than could be expected from the matrix permeability alone.

In addition to these (common) types of permeability, some rocks – especially carbonates - can contain other reservoirs of hydrocarbon, and these reservoirs can flow at almost unprecedented rates. Examples of these unusual reservoirs are solution channels, caves and caverns, which are very frequently found in carbonate rocks.

In the Zhagabulak field, the matrix permeability is so small that the flow of hydro-carbon (oil) from it is none (or insignificant). Existing wells in this area have nevertheless been drilled and completed as if the rock matrix permeability is the sole source of producible hydrocarbon. Although there is clearly oil in this rock, historical efforts have therefore failed to release it.

The reservoir appears to be severely fractured, and it may also contain solution channels, caves and caverns. These phenomena are readily identified by a competent petrophysicist using appropriate data (logs, cores, etc.). Perforation of the casing at different places, and completions designed to put high permeability zones into communication with the well-bore, should result in dramatically improved oil production from the existing wells. If this is borne out in practice, it should be possible to modify the drilling and completion techniques of future wells to take more advantage of the natural permeability channels in this rock.

In Caspian's Carboniferous carbonate reservoirs, the most permeable zones are very frequently washed out to a large diameter as a result of the drilling process. Cementation of the casing then fills this void between the casing and the very permeable, oil-bearing intervals with impermeable cement. When these intervals are perforated, the perforations will not necessarily penetrate through the cement to put the permeable zones into communication with the holes which have been made in the casing. What is then needed is a process of fracturing the cement, between the perforations and the permeable pathways in the rock, to enable the oil to reach the casing.

The term *fracturing* is used somewhat indiscriminately in the oil business to mean cracking of the rock matrix, sometimes for great distances, to enable a matrix with poor inherent permeability to be connected via the induced fracture (which has much greater permeability) to the casing via the perforations.

The term *minifracturing* has been employed to convey the idea that its only purpose is to open up the cement so that the naturally high permeability intervals within the rock can communicate with the well-bore through the cement. It requires a small amount of fracturing fluid, small quantities of proppant, and very little pumping capacity. It is therefore a great deal cheaper than the standard process of *fracturing* a reservoir which has poor matrix permeability. In a process of this type (*mini*fracturing), it is only the cement which is being fractured. The fracturing fluid cracks open the cement from the ends of the perforation tunnels to the natural permeability channels which already exist in the rock. No tools are used to determine this (none are needed).

The cement sheath is not merely inches in thickness. The solution channels, fractures, and karstified intervals which may produce prolifically are naturally open – or opened up by the drilling process – sometimes beyond the range of the recorded callipers, so that there may easily be a foot or more of cement between the casing and the permeability pathway. The objective of the new approach is to deliberately perforate those intervals which appear to be highly permeable, i.e. the fractures, faults, solution channels, and karsts, insofar as these can be identified from logs. The solution channels and other highly permeable characteristics are not "quite distant" from the immediate well-bore area: they intersect it. The mini-fracturing process naturally connects the casing perforations to the existing permeability (the fracturing fluid preferentially splits the cement between the perforations and the adjacent high permeability channels).

On January 14, 2013, the Company reported that the Exploration license which governs the majority of the acreage, commonly referred to as the North Block, has been extended for a further two years up until December 2014.

This extension is Addendum No.7 to the original Contract No.1081 dated December 29, 2002. The granting of this extension reflects the fact that a new discovery was declared in West Zhagabulak, with the completion of well 316 in mid-2012. This extension allows time for the Company to evaluate this new discovery and to commence exploration activity in other parts of the North block outside of the Zhagabulak area.

In line with Company strategy and the minimum Work Program associated with this extension, a new well will be drilled this year and a second well in 2014.

Additionally, the Company has the necessary documentation approved by RK MOG that permits drilling activity in 2013-2014. This refers specifically to drilling a pre-salt well in the area of Baktygaryn (Baktygaryn No.11) as well as a post-salt well in the area of Itassay (Itassay No.26). Approval has also been granted to shoot additional 3D seismic over both the Aransay and Itassay areas. Tenders for drilling Baktygaryn, Itassay No.26 and the associated 3D seismic activity have been let.

The Company's ability to continue as a going concern is in substantial doubt and is dependent upon completion of the aforementioned transaction.

See "Contractual Obligations".

ADDITIONAL DISCLOSURES

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires Management to make certain judgments and estimates. Changes in these judgments and estimates could have a material impact on the Company's financial results and financial condition.

Management relies on the estimate of reserves as prepared by the Company's independent qualified reserves evaluator. The process of estimating reserves is critical to several accounting estimates and is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact crude oil and natural gas prices, operating expense, royalty burden changes, and future development costs. Reserve estimates impact net income through depletion and impairment of petroleum and natural gas properties. The reserve estimates are also used to assess the borrowing base for the Company's credit facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on net income and the borrowing base of the Company.

Management's process of determining the provision for deferred income taxes, the provision for decommissioning liability costs and related accretion expense, and the fair values assigned to any acquired assets and liabilities in a business combination is based on estimates. These estimates are significant and can include proved and probable reserves, future production rates, future petroleum and natural gas prices, future costs, future interest rates, future tax rates and other relevant assumptions. Revisions or changes in any of these estimates can have either a positive or a negative impact on asset and liability values and net income.

The fair value of stock options is based on estimates using the Black-Scholes option pricing model and is recorded as share-based payments expense in the financial statements.

International Financial Reporting Standards

EVALUATION OF DISCLOSURE CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

For the quarter ended September 30, 2012 the CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and have concluded that such controls and procedures were not effective because of the material weaknesses described in Management's Report on Internal Control over Financial Reporting.

MANAGEMENT REPORT ON INTERNAL CONTROL

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's internal control over financial reporting includes those policies and procedures that

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

A material weakness in internal controls is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by the Company.

We note, however, that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues including instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our control systems may become inadequate because of changes in conditions,

or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected and could be material and require a restatement of our financial statements.

Caspian proportionately consolidates the results of its 40% shareholdings in the Kazakh joint-venture, Aral Petroleum Capital LLP (Aral), with its own financial data. The CEO and CFO of Caspian have limited the scope of design of Caspian's DC&P and ICFR to exclude controls, policies and procedures of Aral. To help mitigate the impact of this weakness and to ensure quality financial reporting, Caspian relies upon supervisory controls exercised by Aral management and their undertaking to maintain appropriate policies, procedures and systems of internal control to ensure Aral's reporting practices and accounting and administrative procedures are appropriate, consistent and cost-effective.

The CEO and CFO have evaluated the effectiveness of the Company's internal controls over financial reporting (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) and have concluded that such controls are not effective are a result of material weaknesses caused by the lack of adequate segregation of duties. As Caspian has a limited number of personnel, the CEO and CFO have concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties within Caspian. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a weakness in its disclosure controls and procedures. The CEO and CFO have concluded that taking into account the present stage of the Company's development, the Company's current cash resources and access to cash and the best interests of its shareholders, the Company does not have sufficient size, cash and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight. The Chairman of the Audit Committee is required to execute all bank disbursements.

There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ARAL PETROLEUM CAPITAL LLP

Balance Sheet - At September 30, 2012

(in 000's Canadian dollars)

	September 30, 2012	December 31, 2011
ASSETS		
Total current assets	5,826	3,546
Total non-current assets	123,922	102,505
TOTAL ASSETS	129,748	106,051
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Total current liabilities	199,391	170,041
Total non-current liabilities	1,375	1,078
Total shareholders' equity (deficit)	(71,018)	(65,068)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	129,748	106,051

ARAL PETROLEUM CAPITAL LLP

Statement of Operations – For the nine months ended September 30, 2012

(in 000's Canadian dollars)

	2012	**2011**
Revenue	6,680	602
Operating costs	10,213	1,183
Finance expense	6,028	4,831
Operating Income/(Loss)	(9,561)	(5,412)